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NATIONAL MUNICIPAL REVIEW

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The contents of the National Municipal Review are indexed in the *Engineering Index Service*, the *Index to Legal Periodicals*, the *International Index to Periodicals* and in *Public Affairs Information Service.*

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THE LEAGUE'S BUSINESS

FORTIETH ANNUAL CONFERENCE OF THE LEAGUE

Civic leaders, public officials, and students of government from all parts of the country will gather at the William Penn Hotel, Pittsburgh, for the fortieth annual conference of the National Municipal League, on Monday and Tuesday, November 26 and 27.

FORTY YEARS OF PROGRESS

MONDAY, NOVEMBER 26

9:00 A. M. Registration

10:00 A. M. Panel: IMPROVED ADMINISTRATIVE TECHNIQUE

Louis Brownlow, Director, Public Administration Clearing House, presiding

Mayor McNair: Address of Welcome

Participants: Mrs. E. H. Demmler, Allegheny County League of Women Voters; Robert M. Goodrich, Executive Director, Providence Governmental Research Bureau; Professor Morris B. Lambie, University of Minnesota, Director, League of Minnesota Municipalities; Kenneth J. McCarren, President, Board of Assessors, Detroit, Michigan; Charles P. Messick, Secretary, New Jersey Civil Service Commission; Clarence E. Ridley, Executive Director, International City Managers' Association; J. C. Skinner, Director, Cincinnati Bureau of Municipal Research; Dr. Leonard D. White, United States Civil Service Commissioner; Honorable Paul A. Volker, City Manager, Teaneck, New Jersey; Percy R. Williams, Chief Assessor, City of Pittsburgh.

1:00 P. M. Luncheon: NEW YORK REVOLTS

A. Leo Weil, Honorary Vice President, National Municipal League, presiding

Speakers: Richard S. Childs, President of the City Club of New York; Joseph D. McGoldrick, Comptroller of New York City.

Business meeting of the National Municipal League membership; election of officers; report of the secretary; report of the president.

2:30 P. M. Panel: PROBLEMS OF MUNICIPAL FINANCE

Philip A. Benson, President, Dime Savings Bank of Brooklyn, presiding.

Participants: E. F. Dunstan, Chairman, Municipal Securities Committee, Investment Bankers Association of America; Honorable Robert Garland, Pittsburgh City Councilman; Willis H. Hall, Detroit; Clifford W. Ham, American Municipal Association, former President, International City Managers' Association; John S. Linen, Second Vice-President, Chase National Bank; Honorable William A. Magee, City Councilman and former Mayor of Pittsburgh; Frank H. Morse, Lehman Bros.; Major Fred N. Oliver, Counsel, National Association of Mutual Savings Banks; Mrs. R. Templeton Smith, President, Allegheny County League of Women Voters.

4:30-6:00 P. M. *Round Tables

7:00 P. M. Annual Banquet: A TRIBUTE TO THE CHARTER MEMBERS

Honorable Murray Seasongood, President of the National Municipal League, presiding

Clinton Rogers Woodruff, first secretary: Our First National Municipal League Meeting

Dr. Harold W. Dodds, President of Princeton University: The Future of Municipal Government

TUESDAY, NOVEMBER 27

9:00-10:30 A. M. *Round Tables

10:30 A. M. Panel: HONEST ELECTIONS

Professor James K. Pollock, University of Michigan, presiding

Participants: Alexander P. Lindsay, Attorney; Dr. Edward B. Logan, Budget Secretary of Pennsylvania; Walter J. Millard, Field Secretary, National Municipal League; Hon. D. Glenn Moore, former member Pennsylvania House of Representatives; Mrs. John A. Murtland, Allegheny County League of Women Voters; Hon. Bart Richards, former member Pennsylvania House of Representatives; Professor Wallace Sayre, New York University; Thomas J. Walker, Secretary,

Philadelphia Committee of Seventy and Secretary-Treasurer, Pennsylvania Elections Association

1:00 P. M. Luncheon: A GREATER CITY
Frank C. Harper, Secretary, Pittsburgh Chamber of Commerce, presiding
Speakers: Dr. Thomas H. Reed, Director, Municipal Consultant Service; Hon. Clarence A. Dykstra, City Manager of Cincinnati

2:30 P. M. FEDERAL AID TO CITIES
Henry M. Waite, Former Deputy Public Works Administrator, presiding
Mayor T. Semmes Walmsley, New Orleans: The City's Requirements;
Dr. Lent D. Upson, Federal Emergency Relief Administration: Financing Relief;
Harold S. Buttenheim, Editor, American City Magazine: Uncle Sam or Boss Sam.

7:00 P. M. Annual Meeting, Proportional Representation League:
REPRESENTATIVE GOVERNMENT
Professor A. R. Hatton, of Northwestern University, President, presiding;
Honorable William R. Hopkins, Former City Manager of Cleveland, Ohio;
Honorable Martin S. Dodd, Former Law Director of Toledo;
William B. Rodgers, Pennsylvania State Senator-Elect;
Dr. George H. Hallett, Jr., Executive Secretary, Proportional Representation League and Director, Citizens Union of New York

*ROUND TABLES

MONDAY 4:30-6:00 P. M.	TUESDAY 9:00-10:30 A. M.
1 CITIZEN ACTION:	W. P. Lovett, Director, Citizens' League of Detroit, chairman
2. MODEL TAX COLLECTION LAW:	Arnold Frye, Attorney, chairman
3. COUNTY GOVERNMENT:	Professor A. W. Bromage, University of Michigan, chairman
4. METROPOLITAN GOVERNMENT:	R. C. Atkinson, Secretary, Governor's Commission on County Government in Ohio, chairman
5. HOUSING AND SLUM CLEARANCE:	Ernest J. Bohn, President, National Association of Housing Officials, chairman
6. LIBRARY PROBLEMS:	Ralph Munn, Director, Carnegie Library of Pittsburgh, chairman
7. THE POLICE ATTACK CRIME:	Donald C. Stone, Director, Consulting and Research Division of Public Administration Service, chairman

The local committee on arrangements includes Professor Elmer D. Graper of the University of Pittsburgh; Harry Bastow, President of the Allied Boards of Trade; Miss H. Marie Dermitt, Secretary of the Civic Club of Allegheny County; Dr. J. Steele Gow, Director of the Falk Foundation; Mrs. Oliver J. Haller, President of the Congress of Clubs and Club Women; Mr. Frank C. Harper, Secretary of the Chamber of Commerce; Senator Frank J. Harris; F. C. Irish, Vice Chairman of the Municipal Charter Committee of Pennsylvania; Dr. Charles F. Lewis, Director of the Buhl Foundation; Joseph T. Miller, Chairman of the Metropolitan Plan Commission of Allegheny County; Professor Samuel D. Ross of the Carnegie Institute of Technology; Dr. Roger V. Shumate of the University of Pittsburgh; Sam K. Smith of the William Penn Hotel; Mrs. R. Templeton Smith, President of the Allegheny County League of Women Voters; and Professor A. B. Wright of Duquesne University.

The meetings will be open to the public. All are invited to participate in the discussions. There will be no registration fee. Special railroad rates are offered.

* * *

Nomination of Officers for 1935: The Committee on Nominations has proposed the following officers for 1935, subject to their election at the annual meeting of the League during its fortieth annual convention in Pittsburgh, November 26 and 27:

President, Harold W. Dodds, Princeton, N. J.; *First Vice-President,* Miss Belle Sherwin, Washington, D. C.; *Second Vice-President,* C. A. Dykstra, Cincinnati, Ohio; *Honorary Vice-Presidents,* Henry J. Allen, Wichita; Charles A. Beard, New Milford, Connecticut; H. L. Brittain, Toronto; Henry Bruere, New York City; Harry F. Byrd, Winchester, Va.; Frederic A. Delano, Washington, D. C.; Samuel S. Fels, Philadelphia; Russell Forbes, New York City; John M. Gries, Washington, D. C.; A. R. Hatton, Evanston, Ill.; John R. Haynes, Los Angeles; Frank O. Lowden, Oregon, Ill.; Charles E. Merriam, Chicago; W. B. Munro, Pasadena, Calif.; Frank L. Polk, New York City; Thomas H. Reed, Ann Arbor, Mich.; Chester H. Rowell, Berkeley, Calif.; Murray Seasongood, Cincinnati; Mrs. F. Louis Slade, New York City; A. Leo Weil, Pittsburgh. *Council,* for term ending 1937; Henry Bentley, Cincinnati; Richard S. Childs, New York City; Robert M. Goodrich, Providence, R. I.; Arnold Bennett Hall, Washington, D. C.; Daniel W. Hoan, Milwaukee; Robert W. Johnson, Princeton, N. J.; Lewis Meriam, Washington, D. C.; Lawson Purdy, New York City; Clarence E. Ridley, Chicago; and Lent D. Upson, Detroit.

(Continued on Page 640)

Editorial Comment

November

NATIONAL MUNICIPAL REVIEW

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Public Utilities and Municipal Responsibility

For years there has been a twilight zone of responsibility on the part of municipal officials for adequate and low cost utility services furnished by private companies. This responsibility has become considerably clarified during the depression. The fact that utility rates are only other taxes for essential community services has broken forth into open day. Official responsibility has come to cover not only the direct municipal services but to a greater extent also those which for historical and other reasons have been delegated to private organization.

State regulation of public utilities, instituted with the break of the century, aided to obscure their basic relationship to other municipal functions. When state control was undertaken the municipal authorities were in form deprived of rights and freed of accountability. The course of reality, however, remained. Complaints against unsatisfactory service and excessive rates continued to center more upon city hall rather than the state commission. Consequently the cities often appeared as champions of the consumers against the companies, while the commissions came to act primarily as courts to receive evidence and to decide between contesting parties.

State regulation was introduced in New York in 1907 and then spread rapidly over the country. It was the "new deal" of that day. Unfortunately, however, it has been fraught with disillusionment, as has happened to many new deals. The system had not been carefully developed either as to clear objectives or as to administrative standards and machinery to carry out public purposes. The obscurities of policy and procedure naturally led to litigation instead of systematic regulation. The world war also introduced elements of controversy, and the post-war "prosperity" blurred the public interest.

The depression led back to realities. It has produced a check-up of regulation throughout the country. Consumer pressure broke through the legal demarcations which had become protective for the utilities. It reached not only the commissions but focused particularly upon city hall. The taxpayers and consumers are essentially identical persons. They insisted not only upon direct municipal economy and tax reductions, but pressed for parallel adjustments in utility rates. While up to the present this force has achieved little in actual results, it has created

or revived a consciousness of municipal responsibility.

This new consciousness has revealed itself in various directions. It has appeared in the renewed activity on the part of municipalities before the commissions demanding general rate reductions and in special efforts to obtain lower charges for street lighting and other municipal uses. It shows in the investigations initiated by cities for the revision of rates and the institution of municipal plants. It is reflected in the important referenda and the increasing discussion of public ownership and its factual experience. It is signalized by state investigations, by the federal program of hydro-electric development, and by the nation-wide surveys of power resources, costs, and rates conducted by the Federal Power Commission.

Everywhere there is critical inquiry into utility organization, operation, and results. Throughout the country there is struggle for adequate utility services at minimum cost. This is centered particularly upon municipal officials, who are held almost equally responsible whether the service is furnished outright by the municipality or under franchise by a private company. The functions are public in either case, and accountability is naturally placed upon local officials.

The scope of municipal responsibility is constantly changing and expanding according to public needs. Adequate low cost electricity, for example, has become fundamental to all industrial, commercial, residential, and other aspects of community life. This has been the vital force in creating municipal responsibility, even though the service has been prevalently organized in private form. Its real public status has not been different from that of water supply and sanitation which are mostly organized in public form and come directly under official accountability. The mere form of organization is not vital. The reality of importance is determinative of public interest. Municipal officials have therefore come to be almost equally responsible for all utilities, whether privately or publicly organized.

There may be doubt whether as a long-run policy an activity which is fundamental to community life can be satisfactorily continued under private organization, even under the most effective system of public control. But whatever the ultimate desirability of direct public organization, the fact of underlying public interest remains. Community dependence upon the utilities is inevitably a matter of official concern.

This developing municipal responsibility is the occasion for the special *public utility number* of the NATIONAL MUNICIPAL REVIEW. It seeks to present the utilities in the light of their public functions. The articles cover broadly the principal aspects of public interest and their practical relationship to progressive municipal, state, and national policy.

JOHN BAUER,
Special Editor for this Issue

HEADLINES

September *Headlines,* in reporting that Pescadero Reclamation District 2058, California, reached a compromise with its creditors under the municipal bankruptcy act, evidently cut too many corners. "Attempts to reach a compromise," would have been correct. By September 15 the petition for compromise was being protested from many sources, and evidently had hard going ahead. As J. Ruppert Mason, of San Francisco put it, "The New Deal and courts may hold it an attempted misdeal."

* * *

New York State goes in for police training in a big way. Under the Advisory Council on Police Training, ten municipal police schools, exclusive of New York City, gave certificates of attendance to 1,153 policemen and 8 civilian candidates for police posts last year. According to the Council's report, practically all the various departments represented, required training in the handling of weapons.

* * *

Durham, N. C., Citizens' Council takes the lead in a move to separate the juvenile court from the county superior court, in the interests of delinquent children. The new court opens December 1, under a specially qualified judge.

* * *

Following successful experiments in Rome and in London, England's Minister of Transport prohibits the use of horns and other warning instruments on automobiles between 11:30 P.M. and 7:00 A.M., on all roads throughout Great Britain in "built-up" areas.

* * *

Louisville, Ky., installs electrical "robots" to make out tax bills and pay-rolls and keep track of municipal expenditures generally—the first city in this country to try out the system on a comprehensive scale.

* * *

As Millar's *Housing Letter* puts it, you can't have low-cost housing on high-priced land, and taxes are a crucial item in land costs. This is why the Federal Treasury Department is making a quiet study of apparent overlapping between federal, state, and local taxing powers.

* * *

Commenting on Upton Sinclair's pyrotechnic campaign in California, *Tax Talk,* of Los Angeles Bureau of Municipal Research, considers Sinclair a Nemesis to California's local politicians, who "prophecy better times, arbitrarily refuse to adjust their requirements, change conditions—and keep on living in the past."

"Which," remarks the Buffalo Municipal Research Bureau's *Just A Moment,* "pretty well describes our local administrations in city and county."

E. M. B.

The Significance of Public Utilities in a Modern Municipality

Recognition of the fact that utilities and consumers are necessary to each other should help to smooth the difficulties between them

C. A. DYKSTRA *City Manager, Cincinnati, Ohio*

CHARACTERISTIC of modern life in urban areas is the demand that certain services once performed by the individual for himself be conceived and administered on a community-wide basis. The arguments for this shift are almost too familiar to need statement—convenience, public health, economy, universality, and general over-all effectiveness.

No one who has experienced the joy of water at the faucet in abundance and purity would return to the so-called delights of water out of the hand pump. No one who has pressed the button and seen spring into action the phrase "let there be light" thinks with longing of the day when he filled lamps and trimmed the wicks. Gas in the kitchen range and a telephone on the table appear as necessities to today's housekeeper.

Only at one spot does there seem to be any urge to return to individual or self service—the field of transportation. The automobile apparently is preferred to the street car or the train, but upon examination this apparent paradox resolves again into the phenomenon of more freedom for the individual. The principle involved is the same—the saving of energy. The motor car saves human energy and time and makes for individual convenience.

In any event the public utility has supplanted in unbelievable fashion private and individual functioning in innumerable directions. So thoroughly have the utilities taken the place of self-service that the mechanics for individual operation have all but disappeared in urban communities. One would hunt in vain, for instance, for a hand pump or a private well in New York City or San Francisco.

And so it comes about that the welfare, health, and convenience of us all are bound up in the character, quality, and economy of the far-flung utility services of our cities. Quite inevitably the courts have been compelled to declare that utility operations are "bound up" with the public interest. As an affair of history and law these operations were early declared public functions, although particularly in the United States they were farmed out to individual enterprise because of what were considered adequate economic reasons.

We find then that at the very heart of life in our cities is this communal utility service which reaches almost everybody, which uses the public streets, both above and under, and which normally and naturally takes on monopoly characteristics with its attendant advantages and difficulties. These utility services are supposed to operate with public consent and favor, and because of this are presumed to owe a great obligation to the general

public—which, by the same token, constitutes the totality of consumers who make this business possible and profitable.

There come times in many places when this public consent, or franchise, ends and a new legal arrangement is in order. It would seem that in such a situation the bargaining power of the public is so superior that public authority should have no difficulty in representing the public interest in a utility settlement. Paradoxically, however, it is just because the establishment *is* there in the streets and *in* house connections, and because no consumer can consent to have his service stop for a single hour, that the utility organization can and probably must continue to function with or without permission or agreement. Franchises which it was assumed gave full control to public authority run out but operations go on.

All of which is to indicate that legal right and public permission may mean much or little, depending on immediate exigencies. Certain utilities such as telephones and of late years bus lines operate with little or no local control in many cities because of state laws which give jurisdiction over such services to state regulatory bodies. The entrance of federal courts into the local utility picture has been another hurdle for cities to jump in connection with immediate utility problems. This utility opportunity is now challenged by federal legislation.

PROBLEMS OF MUNICIPAL CONTROL

Because of state regulatory establishments and opportunities for flight to state and federal courts, cities within the last generation have found the problems of local control all but insoluble. Council passes a rate ordinance or suggests a new franchise only to find that the electric company, for instance, immediately appeals to the state commission for a stay of some sort. What with hearings and litigation the establishment of a new rate and new conditions of service are delayed, often for years on end, if indeed they are put into effect at all.

This procedure raises with emphasis the question as to the power of local government to deal with any finality at all with current utility questions. It is directly responsible also for forcing into the picture the question as to whether the city would be better off if it had absolute control of utility operations through the device of public operation or ownership. It is an interesting fact that all of those influences in American life which challenge public operation of utilities and defend private ownership and operation are in the main responsible for the growth of the demand for public ownership. In very real desperation, as they believe, public officials quite reluctantly turn their attention to the possibility of doing for themselves what they fail to achieve in their contest with private utility organizations.

The utility problem thus lies very close to the problem of local administration. Except for police difficulties which often wreck those in authority, no other question is injected into local campaigns so often or so powerfully or with less understanding. Because of this, and further because local administrators are badly prepared to meet utility officials, citizens as consumers have not been well represented in contests or settlements as between utilities and local governments. Nor have consumers been adequately safeguarded when the contest has been removed to state commissions or to the courts.

For the last generation, therefore, settlements with the utilities have tended to be one-sided and in the interest of the investor in utility stocks. Rates on the whole have remained relatively high though service may have

been completely satisfactory. In spite of the tremendous increases in local utility business and the advance of the art which has lowered costs, net incomes of our utility organizations have mounted to extraordinary figures. The consumer has been, in some great part, forgotten in the process. Within the last year or two, however, there are numerous examples to indicate that local rate reductions are on the way oft-times as the result of negotiation instead of regulation.

LOCAL RESPONSIBILITY AND RATE STANDARDS

Too much emphasis cannot be given to the generalization that local administrative officials are in a peculiar degree under obligation to understand local utility problems whether they operate public plants or not. As a matter of fact, since utility plants run in routine fashion and with excellent success so far as operations are concerned, it is incumbent upon the responsible representatives of the people to give even more attention to regulatory than to operating problems. This means, in effect, that rate and service questions which have to do with private operation will require even more study and attention from a city council than will the actual operation of the city's water plant, for instance.

Given real and effective attention to these regulatory problems, it may be possible in time to avoid the conflicts that now seem inevitable and that are the controlling factors in the widespread demand for public ownership.

It would seem possible to work out a theory of regulation and rate making which will produce many of the advantages of public ownership and operation. The acceptance of the implication of such a theory will be resisted, however, at least for a time by the private utility world.

(1) We must come to agreement that the public should not be asked to pay even a limited return on "values" which have no basis in actual plant investment. "Potential earning" values have no place in an industry which is so essentially a coöperative affair between investors and the public. By this same reasoning actual investment should be guaranteed an earning power on a basis which will make necessary financing possible. If the potential earning capacity of the industry is to have any consideration, the consumers have a right to share in these earnings.

(2) Utilities have only a use service. They produce no commodity which has any tangible value except in the moment of actual use. The ordinary business ideas and attitudes as to buying, selling, and return on turnover have no validity in the utility field. The injection of so-called business and promotional features into the structure of public utility organization is a travesty on the basic implications in the term "public utility".

(3) Rates should be based on the real and actual cost of rendering the service. When service is at cost and not at "cost plus", the ends of utility justice are served.

(4) Rates should change as business grows. The public is entitled to its share of the increases which it makes possible and pays for. This dividend to the public should come in the form of reduced rates from year to year.

(5) Rates should change downward as costs per unit of service are reduced. Investors alone are not entitled to the proceeds of the changing art.

(6) A public utility privately owned and operated is still a public utility and it owes a vital part of its responsibility to the public represented as consumers. To conceive it as a purely private enterprise is a fundamental misconception. It is primarily a service enterprise rather than a profit enterprise. Its officers and managers are

in a very important sense quasi-public operators—to say the least.

WHAT CAN BE DONE

Some such implications appear in a recent utility settlement in Cincinnati. Since January 1931 a gas rate ordinance passed by city council has been before the Public Utilities Commission of Ohio. Since March of this year the case has been under hearing. The city and the company have spent hundreds of thousands of dollars in prosecuting it.

Meanwhile, in October of 1933, the city passed an electric rate ordinance. It too was appealed to the Public Utilities Commission by the same company, the Union Gas & Electric Company.

In June of 1934 the city and the company began conferences to see whether the electric rate question could be settled before it came to a hearing in Columbus. On July 11 a new rate ordinance to take the place of the October ordinance was introduced and passed by council. It was immediately accepted by the company.

The settlement assumes the customers' right to participate in the advantages of increasing business, in lowered costs as the art develops, in lowered rates from year to year, and finally it accepts the principle that the city has a continuing right to know something about the company's business. It does not go into the question of valuation, however. It was negotiated with figures which had to do with operating costs, revenues, and net earnings. The amount of reductions was determined by settling a lump sum to be deducted from revenues, and a rate structure was then worked out to fit such a set of facts.

As illustrative of the regressive character of this rate structure the domestic rate formula is set down here:

	1934	1935	1936	1937
First Block	5c	4.5c	4. c	4. c
Second Block	3.	3.	3.	3.
Excess	2.	2.	1.8	1.5

Minimum bill is sixty cents. Minimum in the first block is 20 kilowatt hours and the same minimum holds for the second block at 3c.

Thus on a small house the user will pay 20 x 5 or $1.00; 20 x 3 or 60c; all use over 40 k.w.h. at 2c on the 1934 schedule.

Included in the ordinance besides this regressive schedule is the provision that if imposed charges run to $200,000 in any one year an increased rate may be established. As a corollary, if costs go down by $200,000 in any year because of taking off of impositions, the rate schedule will be further reduced.

It appears, therefore, that several of the principles laid down above are given practical application in at least one community. Moreover, the troublesome problem of valuation was avoided in coming to what the city believes is an equitable settlement. Furthermore, the principle is established that consumers should share in the value of increased business through the device of an annually decreasing rate schedule.

We must live with our utilities no matter who owns and operates them. Recognition of this principle plus an acceptance by our utilities that the good will of consumers must be sought fairly and openly may help to iron out a continually increasing number of difficult situations. Of course, there always remains the alternative of public operation. If settlements can come without resort to such an alternative the utility privately owned and operated can continue to function to the entire satisfaction of consumers and taxpayers.

The Work of the Federal Power Commission

Development and use of water power has been greatly increased by Uncle Sam's power guardian

BASIL MANLY

Vice Chairman, Federal Power Commission

With the increasing emphasis of the present administration on the development and utilization of the nation's power resources, the work of the Federal Power Commission has assumed larger significance.

Fourteen years ago, on June 10, 1920, the federal water power act became law. Its enactment ended a legislative deadlock that had hampered the development of hydro-electric energy for more than a quarter of a century. In the brief time that has subsequently elapsed more water power has been developed on the rivers and streams under United States jurisdiction than in the preceding fifty years.

As a result there are now 112 major projects under license by the Federal Power Commission with installations of 3,928,947 horsepower and an ultimate capacity of 6,908,407 horsepower.

Minor projects and transmission lines bring the total number of licenses and preliminary permits outstanding to 585, aggregating 4,709,399 primary, 3,948,-375 installed and 14,128,989 ultimate horsepower.

Under its statutory authority the commission exercises general administrative control over all power developments and power sites on the navigable waters and on the public lands and reservations of the United States. It licenses and supervises the location, design, construction, maintenance, and operation of power projects upon such sites for the purpose of assuring not only their structural and financial soundness but also the most comprehensive and effective development of the national resources.

One of its primary duties is to determine the actual legitimate cost of all licensed projects as a basis not only for possible ultimate recapture by the federal government at the end of the license period but also for the limitation of excessive earnings as provided in section 10 of the act. In such determinations not only is the actual original cost ascertained, but excessive fees charged by holding companies and affiliated engineering, construction and management corporations are suspended pending an inquiry into the actual cost of rendering such services. As the cost of projects claimed by licensees aggregates approximately a billion dollars, one can readily appreciate the huge task involved in this one phase of the work.

The commission is also charged with the regulation of rates and services and the issuance of securities of licensees in states which have not provided for such regulation. The act further provides that after twenty years of operation the commission shall require that profits in excess of a reasonable return shall be applied to the reduction of the net investment. It is the commission's duty also to determine the value of power

generated in connection with government dams.

Jurisdiction of the commission over power projects arises either from their location on navigable waters, on public lands, in national forests, or by reason of their effect on interstate commerce. Contrary to the general impression, jurisdiction over the larger number of major projects is based upon their location on national property, where no one questions that they should be federally licensed. In far fewer cases is navigability the determining factor. Yet the few cases of the latter class which have been contested have aroused more comment than all the rest combined.

RESPECTING INTRA-STATE RIGHTS

No agency of this government has more scrupulously respected the rights of states in the interpretation of its jurisdiction, yet there are those who still seek to picture the Federal Power Commission as an invader, stretching its arm over streams that are far beyond its legitimate province.

Former Secretary of War Newton D. Baker, who was the commission's first chairman, expressed the extreme view in his argument for the Appalachian Power Company in the New River case, when he exclaimed:

"It was never intended that there should be set up in Washington a commission that could fulminate orders about mountain springs in Virginia and rivulets and brooks in Oklahoma and Texas, and remain in Washington and compel every man that has a right to water his cattle to go to Washington and litigate about his land at a place two thousand miles away."

That is, of course, a lawyer's plea for his corporate client. No such body has been set up in Washington, and the Federal Power Commission exercises its authority only in cases where its jurisdiction is clear and its duty imperative.

The record speaks for itself. The federal water power act provides that any company contemplating the development of a power site may file with the commission a "declaration of intention" as a basis for securing an advance determination of jurisdiction. This is permissive, not compulsory. It is obvious, therefore, that the filing of such a declaration implies a belief that substantial grounds for federal jurisdiction may exist. If the commission were seeking arbitrarily to amplify its jurisdiction to the uttermost limit, as some of its opponents have charged, the record would show that it had sought to assert its jurisdiction, if not in all, at least in a majority of such cases. But the record shows the contrary.

In the fourteen years of the commission's existence 124 such declarations of intention have been filed. All but one have been acted upon. "No jurisdiction" was the finding in sixty-two cases. Jurisdiction was taken in only forty-nine cases. In two cases the decisions were divided, jurisdiction being taken over one part of the project, and refused over another part. Ten cases were closed without formal action, due principally to withdrawal of declaration or abandonment of the project.

Each case in which the commission did take jurisdiction was carefully considered and action taken only where the evidence showed that the proposed power site was located upon a navigable stream as defined by Congress or where there was a clearly demonstrable effect upon interstate commerce. If it had done less, the commission would have been recreant in the performance of its duty and in the accomplishment of the purpose for which it was created.

Licensing of private power projects engaged the attention of the commission so largely in its early period that many people conceived the idea that this was its only function. They misconstrued entirely the intent of Congress in its establishment.

The policy of the Roosevelt administration in furthering development of power is in substantial accord with the purposes of Congress as expressed in the federal water power act, passed during the Wilson administration. It not only contemplated the formulation of a national power program after a thorough survey of the nation's power resources, but specifically provided that the commission should submit recommendations to Congress whenever it deemed that any project should be developed by the federal government itself. Debates in both houses of Congress when this bill was under consideration demonstrate that it was intended that the nation's power resources should be developed not solely for the profit of private corporations but primarily for the benefit of consumers, domestic and rural as well as industrial.

The present membership of the commission, with the approval of President Roosevelt, is seeking earnestly to make this policy effective.

SURVEY OF POWER RESOURCES

A survey of the nation's water power resources and classification of power sites in their relation to available markets was authorized by Congress in the Act of 1920. One obvious purpose was to enable the government, if it should decide upon public development, to choose the sites most advantageously located and which could be developed economically. Neither funds nor personnel were made available, so the commission did not undertake this survey. Had it been made, power sites could easily have been selected, preliminary plans prepared, and the program of the Public Works Administration greatly accelerated.

President Roosevelt, by executive order in August 1933 directed the Federal Power Commission to make such a survey, also to examine and report upon applications by states and municipalities for loans for water-power projects submitted to the Public Works Administration.

The national power survey, now in progress, is in no sense an academic study. It is an undertaking of immediate national importance, practical and urgent.

Since the crash of 1929 few new power projects have been constructed by private corporations. When industrial activity is resumed, we may be confronted by a power shortage. At the moment in some regions a surplus exists, but not to the extent that opponents of governmental development would have us believe. The *Electrical World,* official organ of the utility industry, estimates that, with industrial resumption on a normal basis, the existing power capacity of the country will be 2,700,000 kilowatts short of supplying the demand. General Electric Company engineers go further and estimate the shortage at 4,200,000 kilowatts. To supply this deficiency would require the construction of a hundred or more large steam or hydro-electric plants.

Years are required to complete these huge constructions, even where plans and specifications are available. No one can contend, therefore, that it is not high time to survey the nation's power resources and point out available sites to be developed, whether by government or private industry.

The power survey, designed primarily to ascertain the country's power requirements and the sources from which they can be most economically supplied, seeks also to establish and maintain a balance between steam and hydro-electric power which will give Americans the most dependable sources of energy at the lowest practicable cost.

DISTRIBUTION COST STUDY

Distribution of this current to the public at fair and reasonable rates is the next essential. By direction of the

senate, the commission is making a study of the cost of distribution of electrical energy in relation to the costs of generation and transmission. This will afford a scientific basis for testing the reasonableness of rates charged for all classes of service under varying conditions in widely diversified towns and regions.

Rates concern consumers more directly than any other element. Their reasonableness is the most difficult subject which regulatory bodies have to consider.

Yet no really authentic and scientific basis for rate-making in this country exists. Rate-making has never been standardized. Some companies adopt one basis, others another; some conceal, others set forth demand and service charges, so that few are identical. The whole matter is so complex that it is difficult to compare fairly the rates of companies in neighboring communities, much less in different states and sections.

Rate statistics are sparse and incomplete. The rate-book of the Edison Electric Institute, successor to the National Electric Light Association, the principal published information now available, covers only 473 communities, less than 3 per cent of all those furnished electric service. It contains no information regarding small communities which are notoriously subjected to excessive rates. The form in which the rates are set forth is such that they are almost incomprehensable except to a technically trained expert. They afford no satisfactory basis for comparison of rate levels in different communities.

ELECTRIC RATE INQUIRY

Congress, in the Norris-Rankin resolution passed at its last session, determined to supply this deficiency, directing the Federal Power Commission to ascertain the rates charged for electricity throughout the United States.

This electric rate survey, now in progress, will compile the actual rates charged, for all classes of consumers, in every city, town, and rural region throughout the United States. It is not in any sense a punitive expedition, but a fact-finding inquiry of value to the entire electrical industry, as well as to commissions and consumers.

Its purpose is to furnish the facts which will aid regulatory agencies in determining what rates are reasonable, and power companies in standardizing rates. Rate-fixing is not the purpose of this commission or the aim of its inquiries. That is the function of state agencies. But these surveys should result in a more uniform system of rate-making and adjustments, both by power companies and commissions, of schedules that impose undue burdens on certain classes or communities.

In formulating plans for these surveys, the commission considered all elements concerned. Conferences were held with representatives of state, municipal, and federal agencies, and of privately-owned electric light and power companies. Every phase of the subject was explored to develop the form in which municipal plants and private companies could best furnish the statistics and other information required to present a complete picture of present conditions and probable future development.

The national power survey is directed principally to the two great questions of power requirements and the sources from which they can be supplied most economically and efficiently. This eliminates from consideration numerous sites for which there is no present requirement because of distance from possible markets or high cost of development, and concentrates attention upon sections in which prospective demands exceed present power sources.

In forecasting the future requirements we are engaged not merely in

projecting the past trends of industrial, domestic, and rural consumption, but must consider also the probable effect of technological advances, the opening up of new markets, increase in domestic and rural consumption, and progress in the policies and practices of the industry.

That this can be done with reasonable accuracy was indicated by the power survey of the northeastern states made in 1923, in which the forecast of requirements for 1930 proved only one per cent out of line, and the main transmission lines and interconnections constructed during that seven-year period were located almost exactly as the survey suggested.

COOPERATIVE EFFORTS

To obtain the information required, it is obvious that it would be impossible for the agents of the commission to visit personally the thousands of communities from which information must be secured. It is necessary therefore to rely in large measure upon detailed reports from the private and public agencies.

The forms for these reports have been prepared with exceptional care. The leading experts of the public agencies and private companies have been freely consulted and the forms have been subjected to practical tests in the field before the final revision was made. They cover every essential question and, when collected and analyzed, will furnish information of incalculable value to the public and the electrical industry.

In conducting these inquiries the commission has no theories to prove or disprove, no axes to grind, and no desire except to obtain the facts as accurately as they can be collected and presented. We have found so far a gratifying disposition to coöperate in this important undertaking. Nothing else is anticipated. But if any division or group should refuse or fail to make available the necessary information in its possession or control, the public will be so informed, and substantially accurate approximations secured from other sources. We want to make these surveys as accurate as is humanly possible. We can do so, if all companies and public agencies return complete and authentic information. But none can complain of any inaccuracy or incompleteness that may develop as a result of their own failure to cooperate.

Power planning is regarded as vital by forward-looking peoples. All the leading European countries have made or are making inventories of their power resources and planning their utilization for many years to come. They realize acutely that this is essential to their economic welfare and national prestige.

America, far excelling in natural advantages, has been backward in surveying and planning for full realization of its power possibilities. Events have demonstrated that this can no longer be neglected. Upon it depends in large measure our country's future strength, prosperity and happiness.

The TVA Ideals and Program

Greatest public undertaking of the country interpreted by its chief protagonist

ARTHUR E. MORGAN *Chairman, Tennessee Valley Authority*

IN THE determination of public policy Americans are practical pragmatists. They care very little about the political or economic theory which underlies any program. They want to know only whether the program will work, and whether they will profit by adopting it.

It is my sincere hope that America shall remain a country of pragmatists, that we shall choose our policies on the basis of practical results rather than on the basis of abstract political theories, but I hope that an increasing sense of social responsibility and of insight and imagination may lead us to feel the reality of more enduring benefits.

In the long run the question of public or private ownership of utilities will not be settled by theory or propaganda, but by the actual results of operation. That may seem a trite and threadbare statement. Yet, if it were fully appreciated, the public ownership movement would be giving more of its energies in making sure of economic effectiveness, and less in promoting the extension of public ownership. But for the exploitation and mismanagement by which some private utility managements betrayed the trusting confidence of the public, that confidence would today be resting where it was five years ago.

If the management of privately owned utilities had been highly honorable, thrifty, and responsible, had been content with a modest managerial income, and had returned to the public all other earning power in the form of reduced costs, improved service, and increased wages, that system would today be impregnable in public esteem. Quite probably the federal post office might by this time have been turned over to private management.

The present prestige of public ownership is relatively high, but that relative advantage is due as much to the disrepute of private mismanagement as to the positive proved advantages of public ownership. There is no assurance from on high that public ownership will bring honest and economical administration. For the moment, however, public ownership on a large scale seems about to have its chance. Whether that chance will be so used as to usher in a new day in our economic life, or whether it will result in a morass of incompetence, remains to be seen. Scattering cases of good management will not suffice. The public will judge by average results.

THE TVA POLICY

Congress and President Roosevelt have asked that the Tennessee Valley Authority evolve a "yardstick" to determine a reasonable rate for the sale of power in this country. To do this, it is necessary to generate and sell power on such a scale that the operation can

be representative of efficient management. The authority's first step, therefore, in carrying out such an assignment was the preparation of the following power policy:

1. The business of generating and distributing electric power is a public business.

2. Private and public interests in the business of power are of different kind and quality, and should not be confused.

3. The interest of the public in the widest possible use of power is superior to any private interest. Where the private interest and this public interest conflict, the public interest must prevail.

4. Where there is a conflict between public interest and private interest in power which can be reconciled without injury to the public interest, such reconciliation should be made.

5. The right of a community to own and operate its own electric plant is undeniable. This is one of the measures which the people may properly take to protect themselves against unreasonable rates. Such a course of action may take the form of acquiring the existing plant or setting up a competing plant, as circumstances may dictate.

6. The fact that action by the authority may have an adverse economic effect upon a privately owned utility should be a matter for the serious consideration of the board in framing and executing its power program. But it is not the determining factor. The most important considerations are the furthering of the public interest in making power available at the lowest rate consistent with sound financial policy, and the accomplishment of the social objectives which low cost power makes possible. The authority cannot decline to take action solely upon the ground that to do so would injure a privately owned utility.

7. To provide a workable and economic basis of operations, the authority plans initially to serve certain definite regions, and to develop its program in those areas before going outside.

8. The initial areas selected by the authority may be roughly described as:

(a) Rural consumers in certain regions immediately proximate to the route of the transmission line between Muscle Shoals and the site of Norris Dam;

(b) The region in proximity to Muscle Shoals including northern Alabama and northeastern Mississippi;

(c) The region in proximity to Norris Dam. On January 4, 1934, the authority made agreements to purchase from the Mississippi Power Company transmission and distribution systems in the counties of Pontotoc, Lee, Itawamba, Union, Benton, Tippah, Prentiss, Tishomingo, and Alcorn in Mississippi. It also made agreements looking to the purchase of transmission lines of the Alabama Power Company in the counties of Lauderdale, Colbert, Lawrence, Limestone, and parts of Morgan, Franklin, and Cullman in Alabama; and it also made agreements looking to the purchase of transmission lines and distribution systems of the Tennessee Electric Power Company in the counties of Anderson, Campbell, Morgan, Scott, and part of Claiborne in Tennessee. Most of these purchases have since been consummated.

At the time of the agreements referred to, the authority agreed not to construct distribution systems in territory served by the Georgia Power Company and in the remaining territory of the three companies above. This agreement expires on the completion of Norris Dam, estimated to take less than three years. However, the authority in the interim may, to the extent of its available power, serve the following additional classes of consumers outside of

the ceded territory: (1) any municipalities not now served by the contracting companies; (2) rural consumers or farm organizations in Rhea, Roane, Meigs, and part of McMinn Counties in Tennessee, and in Monroe County in Mississippi; (3) any customers not now served by the contracting companies up to a total demand of 2,500 kilowatts; (4) any industry operated by the authority without restriction as to territory.

At a later stage in the development it is contemplated to include, roughly, the drainage area of the Tennessee River in Kentucky, Alabama, Georgia, and North Carolina and that part of Tennessee which lies east of the west margin of the Tennessee drainage area.

To make the area a workable one and a fair measure of public ownership, it should include several cities of substantial size and, ultimately, at least one city of more than a quarter million, within transmission distance, such as Birmingham, Memphis, Atlanta, or Louisville.

While it is the authority's present intention to develop its power program in the above described territory before considering going outside, the authority may go outside the area if there are substantial changes in general conditions, facts, or governmental policy, which would necessarily require a change in this policy of regional development, or if the privately owned utilities in the area do not coöperate in the working out of the program.

Nothing in the procedure here adopted is to be construed in any sense a commitment against extending the authority's power operations outside the area selected, if the conditions above or the public interest require. Where special considerations exist, justifying the authority going outside this initial area, the authority will receive and consider applications based on such special considerations. Among such special considerations, would be unreasonably high rates for service and a failure or absence of public regulation to protect the public interest.

9. Every effort will be made by the authority to avoid the construction of duplicate physical facilities or wasteful competitive practices. Accordingly, where existing lines of privately owned utilities are required to accomplish the authority's objectives, as outlined above, a genuine effort will be made to purchase such facilities from the private utilities on an equitable basis.

10. Accounting should show detail of costs and permit of comparison of operations with privately owned plants, to supply a "yardstick" and an incentive to both private and public managers.

11. The accounts and records of the authority as they pertain to power will always be open to inspection by the public.

COORDINATION AND ADMINISTRATIVE EFFECTIVENESS

In the field of generation and distribution of electric power, more effective organization and administration are as necessary as improved technology in the elimination of small stations and the building up of great systems. When it comes to distribution to the ultimate domestic consumer, administration plays a far larger part than the cost of generating and transmitting the current. It is natural, therefore, that in the development of its power policy, the Tennessee Valley Authority should be giving particular attention to administrative economies.

The authority has in view a program which would lead to great economy in hydro-electric power generation. Water power in the future may have very stiff competition from both steam and Diesel engines. Whether the three million kilowatts of potential water power in the

Tennessee River system can be developed in competition with other sources of power will depend upon whether every possible economy is achieved in its development. If the cost of generating water power should be six-tenths of a cent per kilowatt hour, it may lose out before steam or the Diesel engine. If the cost of water power can be reduced to four-tenths of a cent per kilowatt hour, it may have a relatively clear field.

Without suggesting any particular level of unit cost, I venture the opinion that if the water power development of the entire Tennessee River drainage area of 40,000 square miles can be given a single unified ownership and control, the unit cost of power may be no more than half of what it would be with divided ownership and management.

Near the east boundary of Tennessee is a dam site which will provide vast storage capacity for an area of very heavy rainfall and run-off of a few thousand square miles. From this point down the Tennessee River to its mouth is a fall of roughly one thousand feet, nearly all of which can be used for generating power. A plan has been proposed by a private company for generating power at the upper site with a dam perhaps 200 feet high, and to administer this power plant as an independent industrial undertaking, perhaps for the operation of a large manufacturing plant. If this is operated as an independent unit it will be regulated with a view to its own needs. In determining how much storage can be economically provided in the original construction, only the value of storage to that plant alone can be considered. The management cannot invest money in this upper plant on the ground that the investment would be justified in the use of stored water at each of the eight or ten plants down below, in which it has no financial interest. Some of these lower plants may not yet be built.

If there were only one up-river plant and one down-river plant some arrangement might conceivably be worked out, but with eight or ten down-river plants which have little or no storage, and twenty or thirty up-river plants on half a dozen tributaries, each with storage which could be released, all prospect for voluntary unified and coördinated control fades away. Each plant would be run when its owner should choose, without regard to the abundance or deficiency of water at plants below or on other tributaries. Trading of water and even exchange of power, would become cumbersome and relatively ineffective.

UNIFICATION OF FACILITIES

Now consider what would be accomplished by a single unified system, thoroughly interconnected by transmission lines and controlled from a single office. During wet seasons or wet years the storage dams would be closed until their reservoirs were filled, and all power would be developed from plants having no storage, or inadequate storage. If rains should be heavier on one tributary than on another, the full reservoirs would be drawn upon. If some reservoir had only enough capacity to store the flow for a few months, its supply might be used ahead of a reservoir that would store one or two years' run-off. If during the low water of summer a freshet should occur on an uncontrolled tributary, that freshet flow could be used to the utmost, and an equivalent value in stored water would be saved.

In any single reservoir it seldom pays to store water for more than two years in preparation for a dry cycle, but in a large system the exceptionally cheap reservoir space could be used for that purpose, thus giving additional security against extreme drouth.

On some of the smaller tributaries of

the Tennessee, sometimes at high elevations, there are reservoir sites of very large capacity, but without water enough to fill them. Those cheapest and most capacious sites could be developed by building dams, and then all surplus power could be used to pump water up hill into them from the Tennessee River. For off peak hours at night, for a few wet months during the year, and for intermittent wet seasons, all surplus power could be used in pumping water into these high reservoirs which would have power plants to be used during peak loads or for a standby supply.

With such a single integrated system under a single control, the full hydroelectric power possibilities could be realized, and the cost per unit of private power might be not more than a half or even a third of the cost of separately owned and operated plants. In this process navigation and flood control also would be provided for, with substantial contributions to the low water flow of the Ohio and the Mississippi.

PUBLIC OWNERSHIP ESSENTIAL

I hold that such unified control and operation implies government ownership and operation. It may be argued that all this could be accomplished under private ownership and operation. But I hold that it should not be in private hands unless that should be necessary to avoid gross inefficiency and corruption of the spoils system.

The control of this great electric power system by a private corporation would give economic power over the people of the region which no self-appointed men ought to hold. Such management and operation would of necessity be governmental and public in its nature, whether privately or publicly owned. It would be necessary to exercise the right of eminent domain, and to have control over the economic life blood of a vast region. Public regulatory bodies have not proved their ability to control such vast aggregations of economic power.

I believe in public ownership of utilities and of public resources, so far as it can be made to justify itself. In many men there is a quality of dignity and social-mindedness which craves for expression in the public service. It is very inspiring to meet men who have given their lives to raise the level of public service, who have worked for small salaries, and who get their reward in knowing that they have worked, not for personal profit, but for the public good. We need institutions which give such men a chance.

PROMOTING CONSUMPTION

We need a new psychology about electric power. We need to think of it as an ever-present servant, practically unlimited in quantity and convenience.

The first steps toward the fulfillment of the authority's power program have already been taken. The power program is in the hands of David E. Lilienthal, one of the directors of the authority. Contracts have been made with communities in nine counties in Mississippi, in five counties in Alabama, and with the city of Knoxville and its adjacent communities. Various other requests have been received from communities in Tennessee, Georgia, and Kentucky. Already the entire dependable output of energy at Wilson Dam has been contracted for.

The sale of TVA power has been handled thus far in three different ways. In Tupelo, Mississippi, the first town to buy from the authority, the current is sold to the municipality, which in turn sells it to the consumers at retail rates laid down by the authority. In Corinth, Mississippi, an association owned by both townspeople and farmers in the surrounding country handles the resale. In Knoxville, if the TVA acquires the distributing system from the

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Electric Utilities in the Depression

Electric companies have weathered the storm and experienced little suffering during the past few years

JOHN H. GRAY

Washington, D. C.

THE electric companies have proved themselves depression proof. This is shown by every important statistical authority, public or private, by the financial results in dividends, interest, and surplus, by the utterances of the managers in their annual meetings, by their chief organ of the industry, the *Electrical World,* and by their financial sales utterances. They have weathered the storm much better than any other large industry. The facts are universally admitted. It remains only to summarize the reasons.

The industry has been subject to phenomenal technical improvements, lowering the costs every year. While rates have been nominally subject to public regulation, supposedly limiting the earnings, the regulation has been wholly ineffective. The companies have themselves had but little knowledge of costs. The regulating authorities and the general public have had none worth mentioning.

The regulation has been highly effective in one particular, that is, in securing a monopoly to the companies, with practically unregulated rates. The industry furnishes a fundamentally important service of universal use, and a constantly expanding market. The reductions in cost have far outrun the meager reductions in rates. The companies have, in fact, charged what they thought would give them the highest profit, but have usually maintained rates above what would give them maximum profits.

A SUGGESTIVE CASE

The history of the Cleveland Company goes far to prove this. When the public plant began operations in 1914 in competition, the company was charging domestic consumers 10 cents a k. w. h., with corresponding rates for other consumers. The public plant has always charged 3 cents to such consumers. The city ordered the private company to lower its maximum to 5 cents. The company contested the case and proved to the state supreme court in 1919 that a charge of less than 10 cents would be nonremunerative and confiscatory. Within six months, under competition, it petitioned for and accepted an ordinance fixing a maximum rate of 5 cents. It has since reduced this rate to 4 cents in Cleveland—still charging 5 cents in outside territory.

This company has earned and paid 16 per cent annually on the old par during the depression, and this year has raised the rate to 20 per cent. It is true that it split its stock 10 shares for 1 and has gone to no-par stock. It now pays $2.00 a share instead of 20 per cent. This sounds much better to the public ear. Meantime, the company has grown from a $15,000,000 in 1912 to a $140,000,000 plant, and accumulated

large surpluses. At the same time, the city plant has grown from a $2,000,000 plant to a $20,000,000 one.

Judson King estimates that this public competition has saved the people of Cleveland in the last 15 years $40,000,000 (May 5, 1934). At least this experience suggests that a further reduction of rates might add considerably to the profits of the companies. This view has from time to time been suggested by leaders in the industry and very recently has been stated by the Standard Statistics Company. December 13, 1930, it said: "The trend towards lower rates is considered beneficial to the industry as a whole as to the public."

PROTECTIVE CONDITIONS

In fighting, in their blindness, to maintain rates and to increase them, the companies have always claimed they were held by regulation to a fair return in good times and therefore could not accumulate surpluses for bad years; and when general business improved and general prices went up they claimed higher rates. They forgot, or ignored, the fact that this industry is less affected by the movement of general prices of labor and material than any other large industry. Speaking broadly, in industry generally about two-thirds of gross goes for labor and material, while in this industry only about one-third of gross goes for these items. Standard Statistics estimates, December 13, 1933, that to restore the general price level to that of 1926 would add but 10 per cent to electric operating costs.

One other reason that this industry has stood the depression so well is the rapid development of hydro-electric power. So long as these hydro plants were each held in isolation many of them had to stand idle much of the time. But since these companies have been gathered into a few large holding companies, often with a close community of interest, their transmission lines have been interconnected almost the country over. This enables the developed water power to be used almost constantly nearly to full capacity. Hydro so used is much cheaper than coal-made power.

The holding companies were originally organized for three main purposes: (1) to issue and speculate in securities; (2) to enable the insiders to organize and control a multitude of subsidiary corporations to bleed the operating companies for the benefit of insiders by material contracts, intercorporate sales of service and securities, general financial, operating, engineering, and other services; (3) to take the companies entirely out of effective control or regulation in all of these particulars.

The promoters were eminently successful. But in the age of mergers and building up these holding companies, they over-reached themselves by paying five or more times what the companies were worth or were capitalized at to get them into the holding companies. They then wrote up their property accounts to the level of these expenditures, or more, and issued securities on this basis. The Federal Trade Commission has already disclosed writeups of this kind to about one and a quarter billions of dollars.

It is not remarkable, therefore, that while practically no operating companies have failed, even after the large bleeding they had been subject to by the holding companies, many holding companies are hard put to keep out of bankruptcy because of the ocean of fixed charges they have to carry.

SUSTAINED RETURNS

It is true that no holding companies have failed except when the grossest recklessness or fraud is apparent. But due to their excessive bond issues they have had but little for dividends. While the earnings of the operating companies

fell off by but 14.4 per cent from 1929 to 1932, the amount available for dividends of eight leading holding companies fell during the same period by more than 70 per cent, or from $204,897,500 to $59,657,158.

The Standard Statistics Company has made a financial analysis of the financial results of 20 leading utility companies. This analysis includes four of the more important telephone companies (known to be less profitable in depression than electric companies). This table somewhat reduced for lack of space, gives the following results (in millions of dollars):

Year	*Net Profits*	*Total Dividends*
1927	$447.	$157.
1929	587.	219.
1930	604.	271.
1931	588.	281.
1932	516.	249.

The net profits in 1932 were but $71,000,000, or about 12 per cent less than in 1929, and $69,000,000 or about 15 per cent more than in 1927.

During the same period, 1929 to 1932, general corporate earnings, the country over, fell off more than 50 per cent ("National Income," 1929-1932).

The total production of the United States fell off by 54 per cent. Between 1927 and 1932 the surplus and reserves of the electric companies increased by $726,400,000. During the same years the number of customers increased by 2,072,094, and electricity sold increased by 2,203,094,822 k.w.h.

The companies claim an average reduction in domestic rates, 1929 to 1932, from 6.33 cents to 4.49 cents or about 30 per cent. It is well known that domestic consumers furnish the chief profits of the companies. It is understood that at all times electricity for power purposes is furnished at an average of minimum profit and during severe depression doubtless much of it is furnished below actual cost. Such averages mean nothing if true, and this one is not proved. During this period, 1929 to 1932, dividends in percentages of those of 1929 increased 43.6 per cent in 1930, 23.8 per cent in 1931, and were in 1932 88.6 per cent of 1929. In 1929 after all operating expenses, interest, and dividends, the companies retained $4,716,000, whereas in 1932, $658,615,000 in dividends were paid out of previous earnings, surpluses, and reserves. This was 55 per cent of all dividends paid. This is a sufficient comment on previous complaints of rates.

In other fields, at this time in all of the uncertainty, managers were omitting and reducing dividends and conserving their resources even when they had ample cash. The action of the electric companies shows not only great prosperity, but great confidence for the future. It must not, however, be forgotten that the operating companies were held captive by the holding companies which had to use coercion on the captives to pay dividends or themselves be pushed to the wall. For they had to have this cash to pay fixed charges on their oceans of bonds.

As said recently by the United States Supreme Court (Illinois Telephone case), results speak louder than predictions, estimates, and opinions. Judged by financial results the electrical industry in the last five years has suffered less financially and in its credit than any other important industry. In fact, under present laws, practices, and administration, it has proved itself depression-proof.

Editor's Note: In this connection see also "What the Depression Has Done to Public Utilities," by John Bauer, *Public Management*, October, 1934.

An Example of Rate Litigation and Its Significance

New York Telephone case proof that long drawn out legal battles get nowhere in the proper settlement of rate disputes

NATHANIEL GOLD *College of the City of New York*

THE last chapter in the long drawn-out New York Telephone case was concluded on February 19, 1934, when the Supreme Court of the United States refused to entertain an appeal by the company from a decision of the District Court of Southern New York.

The lower court decided the case November 7, 1929. It granted a permanent injunction to the company against enforcement by the public service commission of rates ordered by it in 1923 and revised in 1926. The district court had reached the decision after receiving a report from the master in which he found the rates confiscatory. The hearings before the master continued for four solid years. The testimony numbered close to 37,000 pages and over 3,000 exhibits were introduced.[1]

POINTS OF CONTROVERSY

The three judges composing the statutory court spent over six months in a study of the record, with the result that they modified extensively the master's findings. They refused particularly to adopt his views concerning depreciation, going value and rate of return. But they found the rates inadequate.

As to depreciation, the company had provided in current operating expenses charges for depreciation of property due to all causes—wear and tear, inadequacy and obsolescence. This last item was the most important in the telephone properties. The company was in the midst of a large program of converting its manual switchboards into dial operation. Exchanges were being reconstructed. In fact, the company claimed that the rates charged for depreciation were not high enough and that they should be increased.

On the other hand, in the valuation, the company deducted for depreciation due to wear and tear, but made no allowance for inadequacy and obsolescence. Its position was that so long as a unit of property was in active service and functioned properly, no deduction should be made for depreciation, even though a month or a year later it would have to be replaced by another unit. It maintained this attitude notwithstanding an accumulated depreciation reserve of $125,000,000 representing over 25 per cent of the fixed capital balances.

The master agreed with the company that for the purpose of deducting depreciation from cost new, its practice with respect to depreciation charges in operating expenses represented merely an accounting procedure and had no relation to the determination of value.

The statutory court disagreed with the company and the master. It declared

[1]The writer analyzed the 1926 opinion of the commission and the district court decision, respectively, in the NATIONAL MUNICIPAL REVIEW for July 1926 and March 1930.

that the company could not include in operating expenses depreciation charges due to all causes, and at the same time confine its so-called observed depreciation to only one cause. It held that the company failed to prove the existing depreciation in the property was less than the balance in the reserve. It therefore deducted the entire reserve for the purpose of this case.

GOING CONCERN VALUE

The company claimed going value amounting to $48,500,000. It obtained this amount by calculating the time and expense involved in training employes, in building up a system of records, and similar items. The master allowed $35,000,000 without explanation beyond merely declaring that in his opinion this was sufficient. The statutory court refused to accept the evidence submitted by the company on the ground that the items represented recurring outlays of money which are charged regularly to operating expenses. It held that the company could not include these expenses in the valuation any more than it could capitalize other operating expenses.

The court adopted $10,000,000 as the going value of the concern because that had been the amount allowed by the commission. It should be noted, however, that the commission declared at the time that the evidence submitted by the company before it, which rested on a basis totally different from that before the master, warranted no separate item for going value. It stated that the amount was included because it felt constrained by a pronouncement of the federal court when granting a temporary injunction against the 1923 rates that a separate allowance must be made. It therefore added $10,000,000, though against its own conviction. The statutory court thus adopted this amount assuming it to have been reached on a sound basis by the commission.

It was also claimed by the company and confirmed by the master that a rate of return lower than 8 per cent would be unreasonable and confiscatory. The statutory court declared that "a 7 per cent return will amply assure capital and reward investors" and "that a greater rate of return allowed would be unjustified."

These three items constituted the major differences between the claims of the company, the amounts admitted by the master, and the final figures adopted by the court. There were other items in dispute which were either disallowed by the master or allowed by him but rejected by the court. These, however, were not later the subject of appeal.

Notwithstanding the large difference in valuation between the claims of the company and the amount adopted by the court, the latter being only 64 per cent of the former, and the lower rate of return used as a measure of fairness by the court, the rates were found confiscatory. The court permanently enjoined the commission from enforcing the original rate orders or the amended rates that the commission found as fair three years later, in 1926.

APPEAL TO THE SUPREME COURT

Upon the announcement of the decision in November 1929, the New York Telephone Company declared that it would appeal to the Supreme Court of the United States on the ground of the aforementioned three items. The procedure in such an appeal is complicated, and in this case was more difficult due to the long litigation. It was necessary for the company first to search the record for those sections or passages of testimony and exhibits that related to depreciation, going value, and rate of return. Then it had to abstract the record to be presented in a form admissible to the highest tribunal. This huge undertaking was assigned to a

staff of attorneys who worked on it over two years.

When the abstract was completed, the company submitted it for scrutiny to counsel for the commission, the attorney general of the state and counsel for the City of New York. There were 3,000 items on which the parties differed. A series of conferences followed, lasting many months during which some of the differences were composed. The rest were submitted to the federal court for determination.

At last, toward the end of a four-year period, the record was handed up to the Supreme Court. There was in the meantime one change of the grounds of appeal. The company withdrew its contest of the rate of return, evidently realizing the difficulty of maintaining at this time that anything less than 8 per cent is confiscatory. It had, therefore, just two items as the subject of appeal, depreciation and going value.

The public representatives maintained throughout the four years that the merits of the case could not even be considered by the Supreme Court and that it would be dismissed on purely technical grounds. This is precisely what the Supreme Court did. It declared that inasmuch as the company obtained all the relief that it asked for from the statutory court, there remained nothing to be considered on appeal. The mere fact that the statutory court accepted certain items questioned by the company as a test of the confiscatory character of the rates was not sufficient reason for appeal so long as the company obtained the relief it prayed for, i. e., finding the rates to be confiscatory.

This outcome seems so simple that one wonders at those responsible for the policy of the company in spending large amounts of money and valuable time of counsel in the vain effort to continue a controversy which had been resolved in its favor. Moreover, even if the Supreme Court had not dismissed the case on technical grounds but considered the merits of the two items, it is hardly conceivable that it would have substituted its judgment for that of the court below under whose jurisdiction the case had been heard for four years and that had studied the record.

As a matter of fact, a similar attitude was maintained throughout the rate case before the commission, the master, and the district court. There was insistence upon claims which on their face had no merit. There was an almost childish delight taken in drawing out the proceedings to unheard of lengths and the piling up of values without regard to consistency or common sense.

A NEW CYCLE AND ITS PORTEND

Thus we have the spectacle of a utility whose rates were the subject of controversy continuously for a period of twelve years. As soon, however, as this cycle of rate litigation had been concluded, another was begun. Again New York telephone rates are up before the public service commission. Thus, the continuous wrangle of a dozen years, at times simultaneously before three tribunals, has settled nothing. This is clearly shown by the very basis of the Supreme Court's decision:

> .....Appellant, having obtained this relief, is not entitled to prosecute an appeal from the decree in its favor, for the purpose of reviewing the portions of the decree fixing the value of appellant's property as of the years 1924, 1926, and 1928, and the rate of return to be allowed. The matters set forth in these portions of the decree are not to be regarded as *res judicata* in relation to subsequent legislative action by the public service commission in fixing rates for the future or in any judicial proceeding relating to such rates.

Indeed, how could it be otherwise? Even if it was made fairly to public

and company, what good is a 1926 or 1928 reproduction cost valuation in 1934 after prices of materials and labor entering into construction have radically altered?

Herein lies the real significance of this case. While it may have lasted considerably longer than the average utility rate proceeding, it is nevertheless typical of the problems and difficulties involved in all rate cases. It illustrates particularly the fact that the *measure* of return to which a utility is entitled is never clear and definite under the prevailing regulatory system. The reciprocal rights of the utilities and the public remain undefined and variable even after most exhaustive investigation. The more thorough the work, the longer it lasts and therefore the more likely it becomes obsolete before final decision.

This lack of definiteness as to the fundamental factors of rate control is the bane of the existing regulatory process. It is responsible for virtual breakdown of regulation. It creates and perpetuates conflict of interest. It produces trumped-up evidence, protracted hearings, futile appeals, prohibitive expense, and makes systematic regulation as a regular administrative process an impossibility.

Unless legislatures come to realize the fundamental difficulties inherent in the present system and provide for definiteness of rights and exactness of determination as a regular administrative matter, the efforts of the regulatory bodies are bound to be ephemeral at best, and largely ineffective.[2]

[2]The defects of the present system are lodged principally in the standards and processes of valuation for rate making. The entire subject of valuation considered both from the standpoint of financial requirements and administration in relation to public policy, is covered by the writer (jointly with John Bauer) in "Valuation for Rate Making," just published by the Macmillan Company.

TVA IDEALS AND PROGRAM

(Continued from Page 580)

Tennessee Public Service Company it will sell direct to the consumers. By arrangement, it will levy a ten per cent surcharge which will in the course of ten or twelve years permit the city to acquire the distributing system for future municipal operation.

It is the hope of the authority to so stimulate the use of electric power that its activities shall be a stimulus and not a deterrent to the whole industry. In setting rates, an effort has been made to include every legitimate item of cost, including interest, amortization, and taxes.

The authority is refraining from any campaign to take customers from private utilities. Prospective customers must take the initiative, and genuine effort is being made to disturb security holders as little as possible.

Ultimately, by these means and methods that may develop as the project progresses, the authority hopes to accomplish several objectives. It hopes to unify the development of water power for the entire Tennessee River watershed and avoid thereby the enormous waste of various independent installations. It intends to support vigorously the position that the generation and sale of power is properly a public function. It hopes to establish a "yardstick" for power, to discover what electric power ought to cost the people, and to provide a comparison between public and private ownership. It hopes to encourage the wider and freer use of electricity in the American home. Lastly, there are dangers and disadvantages in public ownership. To evade or to deny this fact can only lead to trouble. The authority hopes to face honestly these disadvantages and, if possible, to remove or to master them.

Effective Rate Regulation Through Sliding Scale Agreements

Suggesting a method for overcoming the natural resistence of utility owners to rate reductions as profits increase

WILLIAM A. ROBERTS *People's Counsel, District of Columbia*

I AM not attempting in this article to offer a panacea for all of the ills of rate regulation but merely temporary relief pending the development of more effective regulatory principles.

At a recent meeting of the American Society of Municipal Engineers, held jointly with the International Association of Public Works Officials and the New York State Association of City and Village Engineers, in Rochester, New York, there was presented a paper on regulatory principles and at its conclusion I briefly outlined a device for fixing the rates for electric current which has been in use in the District of Columbia for the last ten years. The keen interest in this device shown by the experienced city engineers present, lead to the preparation of this treatise.

I am referring to the sliding scale method, so-called, of regulating the rates for electric current in Washington. In pointing out the apparent success of this device, it is imperative that attention be directed to the peculiar conditions existing in the District of Columbia so that due caution may be exercised in deciding upon its application elsewhere. Bear in mind that Washington is a residential city, with approximately 500,000 population; that because of the nature of employment in government offices and in affiliated institutions there is a rather high proportion of apartment house residences and a compact development of individual dwellings. Beyond the limits of the city, in Maryland and Virginia, there is a more scattered suburban development. All the operations of the Potomac Electric Power Company, the producing utility, in Maryland within a radius of twenty miles of the District of Columbia, are regulated by common consent of the respective authorities under the District of Columbia arrangement.

Stated simply, this arrangement consists of a written agreement authorized by the public utilities act of the District of Columbia between the utility and the public utilities commission. It became effective on January 1, 1925, at the termination of protracted and expensive litigation over rates. An agreed rate base was then established, and under the arrangement it was provided that each year there should be a reconciliation and that the existing aggregate receipts from sale of current should be diminished for the ensuing year by the application of rates calculated to produce less return on the same consumption by one-half of the excess above 7½ per cent earned on the rate base agreed upon. In subsequent years the rate base was to be increased by the weighted average of the net additions and betterments.

At the same time a sliding scale of depreciation rates was devised under which, regardless of all other factors, a

depreciation reserve was accrued at the rate of 2.3 per cent of the existing rate base until 15 per cent reserve was reached. Thereafter the accruals would become progressively less until 20 per cent was reached in the reserve, whereupon all accruals for depreciation would terminate until the reserve had been depleted below 20 per cent. The scheme involved provision for the automatic increase in rates, after varying delays, whenever return dropped below 7½ per cent.

Now let us examine the facts. In the early years of the post-war period prior to 1924, Washington was prosperous and growing rapidly. Homes and apartments were crowded, and the official consumption of electricity had not descended from its war-time peak. The domestic rate for electric current was 10 cents per k. w. h. and the average consumption per inhabitant was 26.3 per month in 1924.

Immediately after the decree was signed, the maximum domestic and commercial rate was 7.5 cents per k. w. h. and a slight adjustment of the schedules toward a promotional rate basis was made. The increase in consumption started immediately and progressed with accelerated rapidity with each rate reduction under the sliding scale. The initial rate base in the agreement was $32,500,000, including property located in nearby Maryland. By 1933 it was approximately $60,000,000, and a huge new powered fuel steam plant was put into production. A 90-mile high tension line had been hooked up to hydro-electric sources at Safe Harbor, Maryland, and production costs per unit were being hammered ever lower.

At no time during the entire period had the owners of the plant earned less than 10 per cent net after taxes and full depreciation on the rate base which was admittedly in excess of the dollar investment in the plant. Indeed certain accounting adjustments, by no means radical, would in some years have increased the earnings to 12 or 13 per cent. With a conservative management it is no wonder the few outstanding shares of common stock rocketed to fantastic figures. The North American Company, the principal stockholder, was well satisfied, and when the commission suggested that perhaps the first attempt at a sliding scale slid a little too much toward the company, the order of the commission was appealed, but the reduction was sustained with unimportant modifications by the District of Columbia Supreme Court.

A further appeal was terminated by an acceptance of the new ratios by the company and the substitution in the formula of the following percentages:

> (4) If the rates hereafter yield more than 7 per cent in any 12-month period, on the rate base for that period, determined as aforesaid, the excess over and above the said 7 per cent shall be used in a reduction of rates to be charged the public for electric service thereafter as follows:
>
> If the amount earned is above seven per cent (7%) and less than eight per cent (8%) of the rate base, rates for the following 12 months based upon the business done during the 12 months in which such excess occurred shall be adjusted so that the gross receipts of the company shall be reduced by one half (½) of such excess; if the amount of the return is in excess of eight per cent (8%) and less than nine per cent (9%), an additional amount of three-fourths (¾) of the said excess above eight per cent (8%) shall be used for the reduction of rates; if the amount earned is in excess of nine per cent (9%) a further additional amount of five-sixths (5/6) of the excess above nine per cent (9%)

shall be used in like manner for the reduction of rates.

At the present time the rate for domestic current is 3.9 cents per k. w. h. for the first 50 k. w. h., with a minimum bill of 75 cents per month, the next 50 k. w. h. costs 3.3 cents per unit, the next 100, 2.0 cents and thereafter, 1.5 cents.

The most commonly used commercial schedule, small stores, etc., run 3.8 cents for the first 100 k. w. h., 3.4 cents for the next 150, and 2.9 for the next 3,300 k. w. h.; all over 3,550 k. w. h., 2.0 cents.

The energy rate for street lighting is difficult to state because of other service and materials supplied, but is approximately .75 cents per k. w. h. The average monthly consumption per *inhabitant* was 67.1 k. w. h. in 1932, and the domestic current sold in the same year was 67 k. w. h. monthly per domestic customer. These averages are being exceeded materially at present.

No sensational appliance promotion program has been conducted. In fact the company recently turned its entire appliance business over to the local dealers—but that is another story.

APPLICATION ELSEWHERE

I am convinced that if proper precautions are taken in its initiation, this system of regulation may be adopted with excellent results in any community in so far as electricity and gas are concerned. In some instances it may also be applied effectively to water rates, but for reasons which will be hereafter shown, the number of such instances is rapidly growing smaller. The sliding scale is only effective in regulating commodity utilities. It has been shown to be distinctly disadvantageous in the transportation utilities, and I doubt its effectiveness in the communications utilities. In the commodity utilities, however, it is almost universally true that greater sales mean lower unit costs and that lower prices will directly increase the quantities of the commodities sold. This may not be an advantage in water plants because of the difficulty of securing an adequate quantity of water and the constant increase in cost as the source becomes more distant from the point of distribution.

It has been asked whether or not such a system would be effective in a small city. It would be my opinion that this is particularly the case, as few small cities can afford constantly recurring and expensive rate litigation. They cannot afford to have in the city organization men who are sufficiently skilled to compete before public service commissions and the courts in the highly technical field of rate regulation. Under the sliding scale method, a single major expenditure to safeguard the terms of the original agreement, together with a minor and comparatively simple system of supervision, insures rate reductions as rapidly as the public can increase its consumption.

In the making of a sliding scale contract, it is essential that the municipal officials have before them accurate and sound information as to the value of the plant. The contract requires consent of the utility, and may require an attitude of compromise while the initial rate base is being prepared. As a first step, a thorough study should be made of the legal powers of the municipality to make sure that authority exists for this type of regulation. Secondly, care should be exercised to make certain that no outstanding franchise or contracts can later be used to prevent the continued operation of the plan after profits start to increase. There should next be an accurate and complete inventory, later to be made perpetual, under which every element of physical property can be identified. In those cities where the source of supply and the producing

equipment are located outside of the area to be served, there should be a definite determination of the allocation of producing plant to the particular city introducing the sliding scale contract. Otherwise, by unbalanced allocation of producing facilities, the rate base in a community may be distorted and the plan made a menace rather than an advantage to the consumers. If power or gas are to be supplied at gateway rates by affiliated unit of the local distributtor, a provision should be made for arbitration of differences of opinion as to the reasonableness of this rate.

BASIS OF APPLICATION

It is essential, of course, that the accounts of the utility be so kept that costs attributable to the particular community may be separately examined and the allocations of overhead costs definitely determined. At the same time there should be set up within the city organization an authority definitely charged with the policing and supervision of the sliding scale contract. The extent of this organization will have to depend on the size and finances of the municipality. Unquestionably it is advantageous to secure impartial expert assistance at this stage of the game, although I see no reason why undue expenses for consulting forces should be required thereafter.

In my opinion any such contract should contain a specific clause providing for reappraisal of the rate base once every ten years, and specifically for arbitration of the results of this readjustment. There should be a definite provision for the abrogation of the sliding scale contract upon notice, but the period of notice should not be so short as to destroy the beneficial effects or sense of security which warrant the utility owners in whole-heartedly supporting the rate reduction features of the contract. It is my opinion also that every such contract should contain specific waivers of the right of recourse to the usual rate-making tribunals by the utilities and by the city, so as to prevent sudden use of such devices to avoid rate reductions at times when the municipality is unprepared to meet the requirements of judicial process.

It would be practically impossible to devise a uniform sliding scale contract —local conditions must dictate its terms and the rates of return which form its basis. In any such contract, however, the controlling element should be a progressive increase in the amount available for rate reduction as the earnings increase above the stated minimum and a progressive decrease in the accruals for depreciation as an adequate reserve is approached.

I would like to suggest the consideration of this type of sliding scale rate arrangement in connection with municipally owned and operated utilities. Together with most others who are concerned with the future of such operations, I regret the lack of a systematic promotional plan in their rate structures. The "taxless town" principle is directly antagonistic to the known fact that rates for electric current and costs of production and distribution descend in or raise directly in proportion with each other. It follows that the use of utility principles to collect municipal taxes has the social disadvantage of deterring the consumption of electric current and of gas and the economic disadvantage of increasing costs of production by limiting quantities consumed.

No doubt many defects will be found in the system outlined when applied to given communities, but the tremendous savings in costs of regulation and in time more than offset most such disadvantages and warrant most careful consideration of this method by city officials and technicians who are confronted with the question of public dissatisfaction with utility rates.

What a Small Independent Company Can Do

The Hartford Electric Light Company a pioneer in methods of meeting problems of depression

R. A. GIBSON — *Hartford Electric Light Company*

THAT the Hartford Electric Light Company has met the problems of economic readjustment with some degree of success is indicated by its winning of the Charles A. Coffin Medal for 1933. Its record is particularly impressive in increasing domestic usage and decreasing prices, and the company has achieved a national reputation despite its relatively small size.

In January of 1923 Mr. Ferguson, president of the company, said in an address, "Confining my remarks to residential appliances, the less spectacular load, rather than the big industrial installation. . . I want to direct your attention to the household use. . . You have a potential field of 50 to 100 per cent more than the lighting kilowatt-hours." Again in October 1928 before the Association of Edison Illuminating Companies, "That I may not reach the goal I set for my company in the appointed time is no reason for not having a definite program, which program is that within five years every customer who wishes to make full use of electricity in his home for light, refrigeration, cooking, hot water, and miscellaneous services, shall be able to do so at a rate not to exceed 2½c per k.w.h. and that the average usage shall be so increased that as a result the average revenue from domestic business as a whole shall be below 4c per k.w.h. for an average of 800 k.w.h. of service." These plans, inaugurated in 1922 and 1923, and announced in 1928, were based on observations of the depression of 1921, and the judgment which put them into effect has been substantially proved during the past few years.

It goes without saying that the plans have been carefully cultivated by all available means. Carefully designed two-part promotional rates have done their part. The attention to load building has been continuous and effective—refrigeration saturation is high, an off-peak water heater has been designed by the company and installed in large numbers on a rental plan, an "electric home" development has been successfully carried on, use has been made of employees as a trial laboratory for low rates, with startling results, and farm use has been extended far above the average for the eastern seaboard.

Illustrating the determination of the company to develop domestic business at low rates is the trial range plan inaugurated in 1933. Under this plan a customer pays a small wiring deposit and then has a free trial of an electric range for a year. Thereafter rental of $1.30 a month is charged. At the end of two years' use the trial deposit is credited to the customer, and there is at no time any obligation to buy. Range installations in 1933 more than trebled over the preceding year and dealers' sales increased 40 per cent.

Now as to results!

Probably one of the most striking pictures of the results of the form of rate, combined with distinctly promotional energy prices and active load building, is expressed in "A Study of the Domestic Use per Customer with Relation to Form of Rate" taken from thirty-three companies, comprising all the larger eastern systems. These companies have been arranged in order of the domestic use per customer for the years 1927 to 1933 inclusive. It is significant that Hartford has advanced from a position well down in the rating in 1927 to the top in 1933, while two other companies using nonpromotive types of schedules have fallen from near the top to below the middle point. Other things being equal, the figure of average k.w.h. use is a quantitative measure of the composite customer's approval of the price and rate structure presented to him. Such approval or disapproval is genuine because it is expressed by consistent performance rather than by sporadic comment. The average use per customer has increased from 286 k.w.h. in 1922 to 793 k.w.h. in 1933, and is now 30 per cent above the average for the country as a whole. This increase continued throughout the depression and was 4.9 per cent for 1933 over 1932.

In the same period of 1922 to 1933 the average rate has decreased 52.7 per cent, and for 1933 was 2.55 per cent under 1932. The average rate for 1933 was 4.58c and rates as low as 1.71c were being enjoyed in over 750 all-electric homes.

It is also noteworthy that the proportion of domestic revenue to total revenue, exclusive of sales to other utilities, increased from 26 per cent in 1921 to 39 per cent in 1933, in spite of eight reductions in domestic rates during the period. This better balancing of retail business has been of great benefit to the company, and to its customers by the strengthening of the company's position.

A load study made of a typical group of average sized single homes in suburban territory served by the company is graphic illustration of the results achieved. There were 27 customers using 22 refrigerators, 11 ranges and 8 off-peak water heaters. The total connected load was 230 kilowatts, all of which was served satisfactorily by a 15 kilowatt transformer. Still more striking is the fact that the average rate for this entire group of customers was 2.8c a k.w.h.

It is not often that plans can be conceived and carried out as these have been. This company takes pride in the fact that it observed the lessons of 1921 and by its own efforts met the conditions of 1930-33 in a way which has been generally recognized as an outstanding achievement.

Progress in increasing usage and decreasing rates has been paralleled in this company by progress in technical performance. The company has been, since 1920, about four years ahead of the average for utilities of the country in reducing its coal rate, and attained a rate of under one pound per k.w.h. in 1933. In coöperation with the General Electric Company it has developed the mercury boiler and turbine, a unit of which installed in its station produced 102,500,000 k.w.h. in 1933 at a coal rate of 0.74 pounds per k.w.h. The company has also taken an important part in the formation and operation of the Connecticut Valley Power Exchange, which has helped to bring and keep production costs down. A study of the company's history shows a dozen or more pioneer accomplishments in the technical field which later became standard practice all over the country.

Editor's Note: This statement was particularly requested because of Mr. Ferguson's distinct leadership in progressive power policies and his actual accomplishment in stimulating residential consumption.

New York Utility Legislation 1934

Consumer the victor in legislative fight between utilities and Governor

WINTHROP PALMER

Chairman, Public Utilities Committee, New York Women's City Club

THE New York utility companies suffered a spectacular and serious defeat in '34. They not only lost their fight against "stricter regulation" but also their right of exclusive domain in the field of gas and electricity. Municipalities can now go into the power business.

Three reasons may be given for this smashing set-back of private management by public control. The anti-utility-company party maintained an unaltered tactic and a concentrated offensive, and was united under the single command and authority of a responsible and respected chief. The utility companies, on the other hand, were divided under several managements and were in the end sold out by one of their own units in an intrigue with a renegade to the public trust.

Much of Governor Lehman's '34 program "for the stricter regulation of utility companies" had been pressed before. The public service commission had asked for more adequate funds with which to carry on its ever increasing burden of statutory duties and responsibilities. But in spite of the able and authoritative report of the 1930 commission on public service law revision, an unhurried legislature debated, deliberated, took little action. It is estimated that on appropriations approximating $1,000,000, the New York Public Service Commission attempted and did not succeed to effect the required regulation of electrical, bus, street railway, gas, and telephone companies representing a claimed investment of over three billion dollars.

THE LEHMAN PROGRAM

It took State Senator Warren T. Thayer and the Chateaugay incident to startle the legislature, the public, and the public's opinion. When damaging correspondence between a former member of the aforementioned 1930 commission and the Associated Gas and Electric Company was found and published, ten of Governor Lehman's eleven points swept to success.

The ten points in summary can be conveniently grouped as follows:

1. Municipal ownership and operation of gas and electricity.

2. Adequate financing of public service commission at the expense of the utility companies.

3. Expansion and extension of public service commission control to include rigid reforms of utility company financial and rate procedure.

1. The municipal ownership bill is permissive legislation. It authorizes any city, county, town, or village to construct or acquire gas and electric plants for the purpose of furnishing service to its residents and under cer-

tain conditions to residents outside its territorial limits.

Advocates of public ownership emphasize the regulatory power of "competition by example" and not by rate war. Objectors agree with George B. Cortelyou, President of the Consolidated Gas Company, who said: "If a city is to be given the right to go into the power business it certainly ought to be required to take over at its fair value the property of the company now furnishing the service. It is inconceivable that a duplication of the enormous investment should be permitted, and I think that the people who invested their money in the present properties should have the right to be reimbursed for what would be destroyed."

2. Under-financed and therefore inadequately staffed commissions cannot keep valuations up to date, investigate rate schedules, audit annual reports of operating expenses, or carry on vital research work. The amended law now provides for the assessing of part of all of the expenses of commission service upon the utilities or those benefited, provided that the total amount charged during any calendar year shall not exceed one half of one per cent of the gross revenues of the utility in question. This means in brief that the consumer of the utility service foots the final bill for the regulation of that service and that the general taxpayer does not—a policy in line with the "benefit theory of taxation".

3. Of all the new powers granted the public service commission, none is so dramatic as temporary rate fixing and none has caused more bitter outcry from outraged utility men. Under the new law the commissioners have authority to order temporary rate reductions up to a point at which the company in question would obtain a return of 5 per cent on its original investment less depreciation of such of its property as is used in public service.

Stockholders of the Consolidated Gas Company received a letter from their president, Mr. Cortelyou, urging them to attend public hearings and to oppose the bill. "Passage of a measure authorizing temporary rates yielding not more than a 5 per cent return would mean the reduction and possible passing of the dividend on the common stock and would depreciate the value of preferred shares and bonds. The bonds, preferred stock, and nearly all the common stock were issued with the approval of the Public Service Commission."

UTILITY HOUSE-CLEANING

Financial house-cleaning for the utility companies has been prescribed for some time and by many people. It has now begun in earnest and on the ground floor. In order to preserve for the exclusive use of an operating company funds collected from its consumers, no company may loan or advance money to any subsidiary, whether holding or affiliated, without the prior approval of the public service commission. This provision against "lateral" loans is in harmony with the '33 bill forbidding "upstream" financing.

Further good housekeeping devices installed for use by the commission are: (1) The defined authority of the public service commission over gas and electric transmission companies; (2) The new definition of an "affiliate" as a person, company, or corporation owning or holding 5 per cent or more of the voting capital stock (it was formerly 10 per cent) of a utility company. Said the public service commission in recommending this measure: "The spirit of the law has been violated by the formation of a string of corporations each holding less than 10 per cent but in the aggregate holding practically all of the stock while a single holding company controls them all"; (3) The prohibition of "management charges" between affiliated public utility companies

unless such charges are embodied in a "reasonable" contract approved by the public service commission.

The eleventh point of the Governor's program, the bill that did not pass, was part of the increased regulatory grants to the public service commission. It required the utilities to award construction contracts in excess of $25,000 to the lowest bidder after public advertisement. The immediate objective of this bill was to reduce operating costs.

WHAT TYPE OF CONTROL?

In forty-seven of the forty-eight states (Delaware the exception), the utilities or those privately owned and operated businesses "affected with public interest", are under the supervision of state commissions. Since 1907 the regulatory offices of competition have been re-enforced by the jurisdictional authority of a state agent.

The first commissions were established in Wisconsin under La Follette, in New York under Charles Evans Hughes. They acted largely as license bureaus and boards of special inquiry as did the forty-five other commissions that followed after them in as many states. But in the '20's the science of electricity grew big with new progeny, and jurisdictional regulation had to be supplied with a stouter stick. From 1920 to 1930 total appropriations for public service commissions in the United States, according to William E. Mosher, increased from $4,387,435 to $7,113,-851, which represents the cost of regulating $25,000,000,000 worth of property; and in thirty years the functions as well as the funds have increased. Henry C. Atwill of Massachusetts, one of the most experienced commissioners in the country, said in '30: "In fact, we are a branch of the legislature. We are performing a function that the legislature has not got time to do, so they appoint us the agents to do it for them."

But David Lilienthal, formerly chairman of the Wisconsin commission, now director of the federal government's TVA, wrote for the National Electric Light Association in 1932: "The proper function of a state commission for the regulation of public utilities is not to sit as judge of evidence presented by contending parties but to serve as an aggressive fact-finding body," which is curiously like a comment from the enemy camp. Floyd Carlisle, board chairman of the Niagara-Hudson Power, addressed the New York State Bankers Association a few weeks after the 1934 utility legislation went into effect. Said he: "Regulation inevitably results in fixing prices. The governmental agency fixing such prices does not necessarily insure their realization. Back of all enterprises, whether government owned, privately owned or regulated, the basic law of supply and demand operates. A great difficulty is to define to what degree regulation shall interfere with management. In the early days of public service commission regulation of utilities, fact-finding was the primary object sought. Now more and more, commissions have come to initiate rate proceedings and to prosecute them as well as to judge them."

But for all its new trappings of authority public control may not outdistance private management. Permissive municipal ownership is a bright and beautiful spur. Will a boot of positive local leadership be found to kick that spur deep into public inertia—deep enough to prod a lazy and languid citizenry to do more than snivel and whine about the big bad wolf of entrenched power companies?

It is true that to date power company dividends have been cut in anticipation of rate reduction but it is also true that power companies have filed suits against the public service commission on constitutional grounds.

The supreme court has handed down

(Continued on Page 607)

The Place of Leagues of Municipalities in Representing the Public's Interest in Utility Rates and Policies

Establishment of permanent utilities bureau connected with state leagues suggested as means of protecting interests of the public

PATRICK HEALY, III *Executive Secretary, North Carolina League of Municipalities*

"A 5 PER CENT reduction in electric and gas rates means as much to the average home owner as a 20 per cent reduction in the city tax rate!" This statement by Paul V. Betters, Executive Director of the American Municipal Association, came as food for thought to the mayors and other municipal officials assembled in the recent convention of the North Carolina League of Municipalities. And it will engage the attention of others interested in seeing the cost of living reduced.

If we are interested in reducing the cost of living to our communities, we should look not only toward the governmental costs but also to all other elements going to make up the total cost of living—especially the utilities services. Much has been written and spoken about curtailment of municipal budgets and expenditures, but the bankers and budget committees have said little or nothing as to reduction of utility rates. When we consider that the public pays in local utility rates about 10 per cent more in money than it does in local taxes, there is no logic in the predominance of the issue of governmental costs to the absolute exclusion of the issue of utility charges.

During the past two years the public at large has become quite thoroughly antagonized toward the utilities interests. This might be explained by the growing resentment at almost undisputed monopoly; or it might have come because of disillusionment through sad experience with certain unsound utility financing; but most likely it is because utility rates remained high in the face of greatly declining prices in all other lines during the years of depression.

The cost of living index of the United States Department of Labor declined 22.9 per cent in the three years from December 1929 to December 1932. Contrast this with the 5 per cent decline in domestic gas rates per 1,000 cubic feet of manufactured gas in fifty-one principal cities during the same period, or with the 4.5 per cent decline in domestic electric light rates in the same interim.

Yet this failure to reduce rates in line with other declining prices is not the only reason for the public's increased resentment toward the policies of the utility interests. Electric energy has become an every-day necessity. Although at one time it was considered a semi-luxury, its increasing use in almost every phase of our modern industrial, domestic, and social life has made it indispensable. The increase in k. w. h. used per domestic customer per year was 27.6 per cent from 1927 to 1932. People's desires are for lower rates for this modern necessity, and they resent the continuance of high and prohibitive charges.

Lower rates are obviously the great-

est incentive to increased use. Statistics of the quinquennial census of electrical industries compiled by the United States Department of Commerce show that in one state where the average cost was 7.3 cents per k. w. h. the use per domestic customer was 460 k. w. h. per year, while in the state having the lowest average rate, 2.7 cents per k. w. h., there was the highest use, 1212 k. w. h. per domestic customer per year.

In 1932 the average consumer *cost* per k.w.h. for *municipally* owned and operated systems throughout the country was 16 per cent *less* than the average for private utilities, and the average *use* per domestic customer served by *municipal* plants was 18 per cent *greater* than the use per customer of private utility systems. Domestic customers provide approximately 60 per cent of the total electric revenues from all sources. This would certainly tend to prove not only that lower rates result in a greater use of electricity but also that public ownership results in lower rates and, consequently, greater use and public advantage.

An interesting observation with regard to existing financial conditions of municipal governments in the United States is the fact that those municipalities which own and operate their own utilities apparently have weathered the storm of depression in much better shape than those which do not. As we all know, there is today a tremendous drive for municipal ownership of electric plants. The Tennessee Valley Authority is exerting a large influence in this direction. And the Public Works Administration, by lending money at a reasonable rate of interest, has made it possible for many municipal plants to be built.

Many public officials feel that the time has come to outlaw the insolent Insulls who have destroyed the faith of many people in private initiative and leadership. The stockholders in the Insull corporation lost more than all the money represented in the defaulted municipal bonds of the country.

MUNICIPAL LEAGUE FUNCTIONS

Whether we like it or not, the problem of public utility regulation, the question of public ownership and the subject of social control of our natural resources are some of the dominant problems facing public officials of the United States today.

That is where the state leagues of municipalities come into the picture. They are voluntary associations of cities, villages, towns and counties for the purpose of advancing the best interests of sound municipal government through coöperation. The municipalities in over thirty states are thus united to exchange information and experience upon all problems relating to the administration of municipal affairs. Many common problems exist, and where there are common interests, coöperation is necessary.

Recognizing the value of coöperation and assistance to each other, the state leagues in 1924 established the American Municipal Association as a national federation. This exists to serve the state leagues on all matters upon which they need assistance.

LEAGUE UTILITY BUREAU

But no league has yet established a full-time public utilities service. We have attempted to point out that utilities constitute one of the most important problems confronting public officials today. We have also shown how the leagues have been established to assist these officials with other problems. Some leagues, including those of North Carolina and Virginia, are giving serious attention to the question of establishing a public utilities service as a full-time function in addition to the other services being rendered their member municipalities.

A proposal has been drafted to organize a utilities bureau in conjunction with the American Public Utilities Bureau and the North Carolina League of Municipalities. The object is to provide efficient and systematic professional service in utility matters at minimum cost to communities included in the league. The bureau would be separately organized and financed, but its activities would be conducted in coöperation with the American Bureau. It would serve as a special division of the league for utility research, investigation and consulting, would have such staff organization as may be needed, and in all its activities would have available the data, studies, and assistance of the American Bureau and its affiliates.

The plan is that the league bureau would form one unit of a group of affiliated bureaus in other states organized in coöperation with the leagues of municipalities or similar municipal groups. The several state units would be coördinated through the American Bureau under uniform arrangements as to service, fees, costs, and the development of an effective "clearing house" for utility information investigation, and advice.

The bureau would have its headquarters with the league, and would be operated in conjunction with the league. It would be under the general administrative supervision of John Bauer, as director, who is also director of the American Bureau, and similar affiliated units, and who would serve without salary from the league bureau. It would be under the direct executive control of a resident director who would devote his entire time and efforts to the purposes of the bureau, and would receive a small, regular compensation from the league.

The bureau would carry on the following activities:

(1) Analyze the annual reports filed by the principal utility companies with the state utilities commission, and in addition answer inquiries with respect to utility matters which require no special research. The analyses would include the financial and operating results, major improvements and costs, and particularly rate studies. They will be submitted to the league and its associated municipalities and will furnish the facts and interpretations on the basis of which efforts for rate adjustments, etc., may be determined.

(2) Prepare surveys and reports for individual municipalities with regard to particular utility undertakings, including especially the establishment of municipally owned utilities, so that the municipal officials may be informed as to the wisdom of the undertakings, the costs, advantages, and alternative possibilities.

(3) Make annual or other periodical surveys and audits for individual municipalities with respect to the operation, maintenance, extensions, improvements, rates, and finance of municipally owned and operated utilities, so that they may effect maximum efficiency and furnish the highest standard of service at minimum cost.

(4) Provide the technical services required by municipalities in efforts to obtain rate reductions or adjustments, and in other special matters concerning regulation of privately owned and operated utilities, including valuations, cost studies, rate analyses, preparation of evidence to be placed before the commission or courts, the presentation of expert testimony, and similar technical assistance that may be needed.

(5) Conduct such special utility inquiries as may appear desirable to the league for public purposes, including the preparation of articles and pamphlets and assistance in connection with efforts made to obtain changes in public utility statutes and in the establish-

ment of utility policies on behalf of the state.

Uniform fees would be charged for special services to individual municipalities.

The American Bureau would be the coördinating medium of the several state units and would constitute a comprehensive, coöperative organization. It would be duly incorporated; and its policies, activities, and financial transactions would be subject to determination by its board of directors on which there would be representatives appointed by the state units.

SYSTEMATIC SERVICES NEEDED

This is a sound, practical plan for the public's interests to be continuously represented in utility rates and policies. While it might be claimed as duplicating the functions of the state utilities commissions, this argument can be effectively answered by asking for an example of any commission which is now engaged in such functions as to make the plan a duplication. The commissions were doubtless established primarily to protect the public interest against possible encroachments by utility companies. But in spite of their right of intervention and initiation of action, many commissions look upon themselves primarily as judges called upon to settle issues that are raised by the consumers on the one hand or the companies on the other.

There should, therefore, be some full time agency to make investigations, institute proceedings, and render assistance to municipal authorities. Such an office has been established in connection with the Maryland and District of Columbia commissions. The commission itself then hears the cases and passes judgment on the basis of which orders are issued.

The recent act of Congress prohibiting the issuance of a federal injunction against the orders of a public utilities commission insures official recognition of the commission's record as the basis of action. It prohibits the utilities from side-stepping the commission as the regulatory agency of the state. But the companies still have the right to appeal to the state courts for a judicial review of the orders of the commission. In such review the courts do not have the right to substitute their judgment for that of the commission but to rule on whether the commission acted within its legal powers, whether its action was or was not based on the evidence, whether it did or did not act capriciously, arbitrarily or unreasonably, and finally whether deprivation of property was involved without due process of law. It is extremely important, therefore, that the evidence and the record be complete, so that the commission may make a proper decision. That is where the league of municipalities would represent the public's interests and assist the commission by furnishing technical rate experts on behalf of the public.

But this function of providing the technical services required by municipalities in efforts to obtain rate reductions or adjustments is only one phase of the whole plan for a league utility bureau. Other services which the bureau would render could in no way be criticized as duplicating the functions of the state public utilities commission.

The leagues are already representing the public's interests in utility policies and, in some instances, rates. By advocating or opposing legislation introduced in the state legislatures and in Congress, the leagues, through the cooperative action of their member cities, have a great deal of influence in the determination of all policies affecting municipalities, including utility policies. A good example of this is seen in the last session of Congress. Near the end of that session the American Municipal

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Can Government Leadership Cut the Valuation Tangle?

Federal and state cooperation, led by Federal Power Commission, suggested for determination of "fair value" as basis of rate adjustments

JOHN BAUER *Director, American Public Utilities Bureau*

THE public interest in utilities has been badly jammed during the depression. At a time when it should receive uppermost consideration, the difficulties of proper dealing have become grossly compounded. Notwithstanding the need and growing demand for rate adjustment and reformulation of policies, there is practically country-wide deadlock. This applies particularly to electric power, which has become the paramount utility with which public authorities are concerned.

We are living in a power age. In every state and community permanent prosperity and economic progress depend basically upon adequate and *cheap* power. This applies not only to manufacturing processes, but to practically all ranges of commercial activities, agriculture, the homes, and constantly enlarging public uses. Cheap power embodies the most fundamental of public interest. Consequently its proper development, organization, and control on behalf of the states and the communities are of supreme importance.

In view of the superimportance of electric power, little is being done to protect the public interest and establish effective policies. Whatever leadership and constructive efforts have been asserted, have come mostly from the federal government. They include not only the undertakings of the Tennessee Valley Authority and other projects, but also the Federal Power Commission's country-wide investigations of power resources, rates, and distribution costs. While these investigations carry no authority for rate adjustments or policy action, they convey information and stimulate interest among states and local communities. They furnish a starting point and suggest what may be done for the advancement of public interest and formulation of policy.

NEEDED RATE ADJUSTMENTS

The special point for critical consideration here is the grave need of obtaining prompt and far-reaching rate adjustments. For the most part, electric rate levels have remained unchanged since before the depression, when they were already excessive. While in many instances moderate revisions have taken place, the reductions have not corresponded with the tremendous decline in price level and contraction in purchasing power; nor to the advance in power technology and attainable economy. An excessive proportion of consumer income is perforce devoted to electric bills. Slashing rate reductions, especially in certain classes of consumption, are also needed for desirable application of electric power to expanding ranges of economic and social uses. The high rates stand against progress throughout the country.

To obtain the needed rate adjustment through regulatory processes, the first

step is to make proper valuations of existing properties. For each company the present "fair value" or rate base must be determined. Without such prior determination, no reasonable adjustment of rates can be practically made. The amount in each instance, under the law of the land, must be based upon present and prospective costs of construction, together with other factors, with due consideration of the physical wear, decay, and other depreciation of the properties.

These determinations are prerequisite in every state to adjustment of rates and for the formulation of a needed power program for the future. But how are they to be made? Under prevailing procedure, they involve extensive conflict of interest between private and public rights, and therefore lead to drawn-out and expensive investigations and hearings. They call not only for the expenditures of large sums of money, but also for the consideration of reasonable and practical methods.

The controlling difficulty in most states is the lack of funds. The duty and power to fix rates have been delegated by the legislature to special commissions. These are supposed to be expert bodies, with special personnel, to make valuations and cost studies, and to fix rates in the public interest. But now when the need is greatest, they have been extensively stripped of funds. Under the state "economy" programs, they have been left largely unable to function. When practically every power property in the country should be revalued on the basis of present conditions, there is not a single commission which has adequate funds for that purpose. What the taxpayers "save" on commission support, they lose many hundred-fold on excessive rates and in failure to fix reasonable power policies for the future.

GOVERNMENT LEADERSHIP IN VALUATIONS

What can really be done? How can proper valuations and cost studies be made? We believe that broad-gauged coöperation between the federal government and the states is essential. While the federal government should not attempt to impose its desires upon the states in purely intrastate matters, it can nevertheless coöperate with state agencies, helping them to meet immediately the emergency conditions of needed rate adjustments and to lay the foundation for the development of future policies in the public interest.

What are the possibilities of federal and state coöperation in dealing with the power situation? While there are various alternatives, we shall propose a clear program which seems practical and should be acceptable to the federal, state, and local authorities. The principal points are as follows:

1. Let Congress appropriate an adequate sum of money to provide for power property valuations and cost studies throughout the country, entrusted to the administration of the Federal Power Commission. The federal government would pay the basic costs that would apply to all the states, while the state governments would pay the more distinct costs of state application. The states would receive the benefits only as they voluntarily accept the plan and as they pay the designated local costs of the work.

2. The Federal Power Commission would be authorized and directed to coöperate with the state commissions in formulating a program. It would work jointly through a special committee created for the consideration of all matters of policy and procedure. The committee would consist of representatives selected by the Federal Power

Commission and by the participating state commissions.

3. The committee would have for consideration, first, a comprehensive classification of properties for the preparation of uniform inventories of the different companies. Uniformity would be essential. Furthermore, the units of property as defined for the inventories, should be as large as practicable to avoid multiplicity and complication of details. Separate itemization of small units which constitute a part of a larger unit has no importance; it only adds complexity and cost. Each unit as defined would have the same significance as to all properties included in the valuation.

4. Another major task would be the determination of standard unit prices for complete installation of each class of property as defined in the classification. Careful studies would be essential. Factors would be established to meet variation in conditions. The unit prices would then be applicable to all the inventories of the different companies in participating states according to the particular conditions.

5. Also general studies of depreciation would be made, to provide both for uniformity of conception, bases, and methods of valuation. They would then be applied to the different properties in the participating states.

6. After the establishment of classification, unit prices, and depreciation standards, each participating state commission would require every power company under its jurisdiction to prepare and file an inventory of properties according to the accepted classification. Much of the data would be taken directly from existing records; so far as practicable detailed field counts would be avoided. To assure accuracy, the inventories would be spot-checked jointly by the state commission and the Federal Power Commission.

7. After filing and spot-checking of the inventories, the next task would be to apply the standard unit prices, and to make the requisite determination of depreciation.

8. The final determination of "fair value" would naturally be made by the state commission separately for each particular property. It would take into account the results obtained through the coöperative procedure as well as other evidence that may be presented by the companies or otherwise produced to supplement the joint studies. By the adoption, however, of basic uniformity of classification, unit prices, and depreciation, all the properties in the different states would be valued substantially on the same basis. The results would furnish a harmonious basis for systematic rate adjustment by the different commissions in the interest of the country at large.

9. Besides valuation, coöperative procedure would be extended also to operating costs, so as to fix standard requirements under different conditions, and to rate schedules so as to maintain maximum conformity both as to type and level of rates.

10. Besides the immediate studies for the readjustment of rates, consideration should be given also to future policies and methods of dealing with power properties from the public standpoint. This would include the character or organization as well as the basis of control for the prompt and continuous readjustment of rates and for the general promotion of use according to state and national welfare.

DIVISION OF COSTS

The cost of such comprehensive investigation could be kept within a very modest sum considered in relation to the importance of the job. Economy of procedure would appear in careful planning and in the standardization both of classification, unit prices, and all other

phases of the work. The federal government would bear the direct cost of creating the coöperative machinery and making the general studies that apply jointly to all the properties.

With respect to the actual application of the policies and standards, the direct cost would be borne by the states, either by the commission, or by municipal contributions, or by any other state arrangement. The federal government would pay only the cost of its representatives in participating incidentally in spot-checking, in the application of unit prices, and in other aspects of the total procedure.

No state would participate unless it chose to do so. The federal government would in any case provide a committee of country-wide representatives under whose auspices the general studies would be made. In the application of the general studies to the properties, the decision would be entirely a matter for state determination.

We believe that the federal obligation of such an undertaking would not exceed five million dollars. But even if double or ten times the amount were required, the expenditure would be justifiably incurred many times over. Before congressional action is taken, however, the Federal Power Commission would furnish a detailed estimate. State costs would depend upon individual conditions. In no case, however, would the expense be prohibitive or particularly burdensome. Federal assistance would be furnished throughout in standardizing procedure and in keeping costs to a minimum.

SIMPLICITY AND STANDARDIZATION

In the history of valuation and rate cases, frequently high and prohibitive costs have been incurred. For the most part this has been due to lack of standardization; each case has proceeded independently without regard to what was ever done before. It has called for a separate inventory without standardization, new unit prices without regard to previous determinations, independent overheads, individual depreciation without regard to formulated principles and established procedure. Furthermore, there has always been an interest in preventing speedy and simple determination. In some instances the object was doubtless to "build up" costs to prohibitive figures so as to keep commissions and municipalities from undertaking rate cases.

Through standardization, uniformity, and practical procedure, the costs can be kept at moderate figures that would be justified many hundreds of times because of immediate rate reductions and the clearing of the way to the establishment of desirable power policies. The deliberate objective would be to keep costs down, to simplify and standardize procedure, and to get results as promptly as possible consistent with fair dealing. No dilatory and antagonistic course would be permitted to interfere with public purposes.

To do an adequate public job requires federal initiative and financing. Otherwise, in most states practically nothing will be done; injustice to consumers will be continued; and the attainment of reasonable power policy will be postponed to the indefinite future. If provided along the lines suggested, federal leadership would doubtless enlist country-wide participation by the individual states.

We urge the proposed program for consideration by all public groups interested not only in reasonable rate adjustments but in effective power policies for the future. We appeal to state commissions, municipal officials, public organizations, consumer groups, and public-spirited citizens. With such support for the program, doubtless action could be obtained from Congress in its next session, and the job could be promptly started with untold value to the public interest.

The New Trend To Public Ownership

Sentiment for municipal ownership grows as increased opportunities are presented to prove its merits

HAROLD M. OLMSTED

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THE status of public ownership of utilities at the present time, and more particularly the present-day trend, are difficult to determine with statistical exactness. The general situation, however, can be reasonably well established, and there are reliable indications which point quite definitely to an increase in the extent of public ownership.

As an illustration of the difficulty in knowing the exact facts regarding ownership, the current year has produced at least four different compilations of data on the number of municipally owned electric light and power enterprises in the United States. While the results are not vitally in conflict, neither are they in close agreement.

The first of these is contained in the report of the Bureau of the Census covering central electric light and power stations, which shows for 1932 a total of 1,802 municipal and 1,627 commercial (privately owned) establishments. The municipal establishments were thus 52.5 per cent of the total. As the commercial establishments are in many cases large systems serving many municipalities, and cover most of the large centers of population, they do 94.1 per cent of the business. Of the 1,802 municipal systems, 865 generated part or all of the electric energy sold. Despite a decline in the number of municipal establishments as well as in the number of commercial ones, the installed horsepower in the municipal plants had increased from 2,048,722 HP in 1927 to 2,775,649 HP in 1932, constituting 5.8 per cent of the total for the country.

A second source of information of similar character is the Institute for Economic Research, affiliated with Northwestern University, Evanston, Ill., which for the last seven years has sponsored painstaking investigation into the extent and character of municipal ownership in the light and power field. In an article by Professor Paul Jerome Raver in the Institute's *Journal of Land and Public Utility Economics* for February 1934, he reports 1,849 municipal establishments as of December 31, 1932, 905 of which generated all or part of the energy sold. His figures show changes from year to year, and the total mentioned is a decline below 1931. He points out, however, that this decline was very slight—thirteen establishments—whereas the annual decline for seven years previously had been several times as great; and the decline in number of generating plants had been replaced by a slight increase.

Another comprehensive list of plants appeared this year in "Municipal Electric Plant Managers," by Edna C. McMahon, published by Public Administration Service, Chicago. This list, which was based primarily on 1931 data, with some changes in the light of Professor

Raver's studies and other sources of information, gives a total of 1,808 establishments, 906 of which generated part or all of the energy sold.

Another survey of municipally owned electric establishments has been made by the Mississippi Valley Committee of the Public Works Administration, which shows 2,390 municipal establishments with 1,665 having generating plants. This report, it is understood, is tentative, and subject to later correction.

The government compilations mentioned are supposed to include only municipal electric systems doing a commercial business, whereas Professor Raver's total includes some thirty-one plants which generated for street lighting and other municipal purposes only, according to his complete list of municipal generating plants published in the August 1933 *Journal* and the 1933 "Municipal Index."

CHANGING MOVEMENT

To obtain a complete and up-to-date picture of municipal ownership year by year would call for an organized effort which no agency, governmental or otherwise, has found feasible to undertake continuously. The preceding data, with the exception of the tentative PWA figures, represent conditions of one to two years ago, and so far as trends were concerned, were downward, excepting as Professor Raver's figures foreshadowed a reversal.

The downward trend had decreased largely because the efforts of privately owned power systems to acquire municipal plants had been greatly checked by the depression. Now there are various positive tendencies toward increased public ownership, prominent in which is the aid given by the federal government in the form of PWA loans and grants, and also the special case of the Tennessee Valley Authority.

The PWA on August 23, 1934, reported that $192,518,900 had been allotted for construction and improvement of publicly owned generating plants, by far the greater part of which —$146,250,000—was for five federal projects: the Bonneville and Grand Coulee plants on the Columbia River, the Fort Peck Dam on the Missouri River in Montana, the Casper-Alcova project in Wyoming, and additional money for Boulder Dam on the Colorado River. The non-federal projects total $46,268,900, and are expected to require $50,031,293 to complete. They include some twenty-two new municipal plants serving approximately 278,000 people. The PWA financing is on the basis of an outright grant of 30 per cent of the cost of labor and material, the rest being a government loan.

The Tennessee Valley Authority, to which $75,000,000 has been allotted by the government, is a great stimulus to municipal ownership in the territory which it serves. Knoxville, headquarters of the TVA, is to have public ownership, and many small municipalities in the Tennessee Valley have decided to acquire the local electric systems and purchase power from the TVA.

TECHNOLOGICAL INFLUENCES

The activities of the TVA illustrate one type of technological development which has heretofore tended strongly toward more private ownership in the electric field. This is the transmission network type, which the private companies have found much simpler and easier to bring about than has ordinarily been possible for municipalities. It is expected that other federal projects now building will emulate the TVA's power distributing activities.

But the transmission network is by no means the controlling type of development affecting the trend of public ownership. There is plenty of opportunity for the local generating plant which can give a more dependable supply of electricity than the transmission sys-

tem, and it does not require a place of very large population to justify it economically. This has become particularly true regarding Diesel-engine plants, which are now the dominant type of municipal generating plant, other than in large cities, and have demonstrated their economy and reliability.

The electric field continues to be the most active sector in utility development, and may be expected to show the greatest increase in public ownership among the utilities. The water-works industry, where municipal ownership is dominant, showed prior to the depression somewhat of a stimulation of private acquisition of small municipal systems, but this tendency is no longer apparent, and water works as well as electric plants have had the further stimulus of PWA grants, and previously of loans from the Reconstruction Finance Corporation. In the gas industry, the foothold of municipal ownership has been retained, but not noticeably changed. This is much the case with municipal transportation systems also. There seems to be no immediate likelihood of public ownership invading the telephone business.

The existence of municipally owned utilities has in many places proved to be a financial boon during the depression either by relieving the tax load in various ways, or by aiding the consumer through rate reductions. On the other hand, the privately owned utilities have seldom evidenced enlightened rate policy, but have in general continued their rates throughout the depression despite the decline in purchasing power of their patrons. This has tended to reinforce municipal ownership sentiment, which is now free from the handicap of being considered heretical by the federal government. In view of collectivist tendencies in other fields, the attaching of any stigma to public ownership of utilities is almost grotesque. Subject, of course, to specially interested opposition, public ownership is having increased opportunities to prove its merits as a direct solution of the problem of public utility control.

NEW YORK LEGISLATION

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the decision that "fair valuation" shall be the basis of all rate-making. There is no sanction for the separation of rates into "temporary" and "permanent", all rates being subject under the law to a constantly changing scale.

And so the story ends with neither commission nor utility the unchallenged victor. It ends very simply at the feet of that humble hero, the consumer. To the consumer the philosophy of utility management, the political and economic warfare of public and private bosses are of small moment. He or she is interested in the monthly bill, in the regularity and efficiency of the service, in the soundness of bonds or in the case of municipal operation in the avoidance of deficits chargeable to taxpayers.

It is in the final analysis to meet these practical and pedestrian purposes that utility legislation and administration should and must address itself. In our recent zeal for reform we have made much of ways and means; we have reshaped and realigned, revised and reset, but what of the beneficiaries? Will they get more than a big show and a long-term refinanced bond, private or public?

A very great Republican, musing about those in places of command, said in 388 B. C.: "In so far as they are rulers they neither enjoin nor consider their own interest but that of the subjects for whom they exercise their craft." In non-platonic language it might be suggested that in the field of utility it is high time for all sides to cut out the ballyhoo and get down to business.

How Municipal Lighting Plants Survive Hard Times

Publicly owned electric utilities have materially assisted their owner-cities by low rates and contributions to tax relief and other current expenses

FREDERICK L. BIRD *Director of Municipal Research, Dun & Bradstreet, Inc.*

SKEPTICS of the ability of American cities to manage municipal light and power utilities successfully have had abundant opportunity, over the past few years, to determine the validity of their suspicions. Ineptness of administration or weakness in fiscal policy could hardly escape detection under the conditions which have prevailed since 1929.

Ability to operate profitably and at the same time to give good service at low rates, over the past five years, may be said to constitute a fairly satisfactory test, not only of the competence of management but of the value of this type of municipal enterprise. Especially pertinent, therefore, are the results which have been attained by the large municipal light and power systems operated commercially in cities of over 50,000 population. The rates charged by this group of plants, the profits or losses from operations, the special aid rendered to depressed city treasuries, and the particularly significant features of administration will be taken up in brief review.

Of the eleven municipally owned light and power systems in this group which furnish all or a preponderant part of the electrical service in their respective communities, five are on the Pacific Coast, in Los Angeles, Pasadena, and Glendale, California, and Seattle and Tacoma, Washington. The other six are owned and operated by Kansas City, Kansas; Springfield, Illinois; Lansing, Michigan; Hamilton, Ohio; Holyoke, Massachusetts, and Jacksonville, Florida. With the youngest of these plants in its seventeenth year of operations, they have passed the experimental stage and are well established enterprises.

These undertakings have, without exception, been steady "dividend" payers to their citizen-consumer owners. The form in which this compensation has been rendered has varied with the fiscal policies of the several plants, but it has been generous. It is well to bear in mind, in this connection, that when owners, consumers, and taxpayers are largely identical, there is a considerable choice of methods whereby benefits can be distributed, such as through low rates to consumers, low cost or free service to other city departments, reinvestment of profits, and direct contributions to the city treasury. Thus savings in light bills and reductions in taxes become the equivalent of dividend checks.

LOW RATES

Conspicuously low rates are characteristic of the operating policies of this group of municipal plants with the exception of Jacksonville, which elects to approximate neighboring private utility rates and use the resulting profits for large reduction of the city's general

property tax. Rate schedules, because of their wide diversity of structure, are somewhat meaningless for comparison; so typical monthly bills have been utilized to show how cheaply residential consumers in these cities are served.

The following table indicates the cost of lighting the average home (40 k.w.h.), of lighting and refrigeration (100 k.w.h.), and of lighting, refrigeration, and operation of an electric range (250 k.w.h.). The median cost in the first classification is 4.5 cents per k.w.h., in the second classification, 3.4 cents per k.w.h., and in the third, 2.6 cents per k.w.h. That this is cheap electricity is borne out by the fact that comparable median costs, under privately owned service, in the largest cities in 27 states are, respectively, 6.25 cents, 4.77 cents, and 3.65 cents. Briefly, the typical consumer enjoying the median private rate pays 38.9 per cent more for his light, 40.3 per cent more for lighting his house and operating his refrigerator, and 40.4 per cent more for light, refrigeration, and cooking than does the typical consumer with the advantage of the median public rate.

TABLE I

Typical Monthly Lighting Bills for Residential Consumers Served by Municipal Lighting Plants in Eleven Cities of Over 50,000 Population

City	1930 Population	Monthly Bills for 40 k.w.h.		100 k.w.h.		250 k.w.h.	
Glendale, Calif.	62,736	$1.81	(4.50)a	$3.31	(3.31)a	$6.69	(2.68)a
Hamilton, Ohio	52,176	1.90	(4.75)	3.85	(3.85)	7.35	(2.95)
Holyoke, Mass.	56,537	1.60	(4.00)	4.00	(4.00)	9.25	(3.70)
Jacksonville, Fla.	129,549	2.70	(6.75)	4.95	(4.95)	7.50	(3.00)
Kansas City, Kan.	121,857	1.80	(4.50)	2.70	(2.70)	4.95	(1.98)
Lansing, Mich.	78,397	1.85	(4.62)	3.25	(3.25)	6.00	(2.40)
Los Angeles, Calif.	1,238,048	1.81	(4.50)	3.31	(3.31)	6.69	(2.68)
Pasadena, Calif.	76,086	1.80	(4.50)	3.50	(3.50)	6.50	(2.60)
Seattle, Wash.	365,583	2.20	(5.50)	3.40	(3.40)	6.30	(2.52)
Springfield, Ill.	71,864	1.90	(4.75)	3.90	(3.90)	6.15	(2.46)
Tacoma, Wash.	106,817	1.80	(4.50)	2.40	(2.40)	3.90	(1.56)

a. Figures in parentheses show rate per k.w.h. in cents.

SOUND FINANCING

Low rates, however, have not been at the expense of sound financial operations. In a period in which corporation operating statements have been liberally spattered with red ink these eleven municipal plants have not shown a single deficit. The following table (Table II) shows the uninterrupted five-year profit record from 1929 through 1933. The figures are for net earnings, after deduction of operation and maintenance costs, interest on debt and adequate depreciation.

Nor do the few sharp declines in profits indicate any serious loss in earning power. They reflect, rather, some flexible use of the enterprise for the advantage of the community. In Los Angeles it was the reduction of rates, including a $385,000 annual saving in street lighting; in Pasadena, the lowering of the street lighting rate from 2½ cents to one cent per k.w.h.; and in Seattle, a large increase in interest and depreciation in conjunction with huge hydro-electric plant expansion for the city's future requirements.

TABLE II

Net Profits of Municipal Lighting Plants in Eleven Cities of Over 50,000 Population

	1929	1930	1931	1932	1933
Glendale	$ 482,153	$ 477,898	$ 459,632	$ 477,273c	$ 407,650
Hamilton	297,899	313,714	276,842	267,586	237,118
Holyoke	142,442	143,680	149,471	141,637	124,300
Jacksonville	.....	.....	1,480,002	1,589,992	1,556,842
Kansas City	315,506	458,793	377,443	233,789	192,451
Lansing	.....	.....	591,084	139,206	.....
Los Angeles	3,626,972	4,224,498	4,344,289	3,900,071	3,811,258
Pasadena	656,022	640,726	741,751	703,874	533,131a
Seattle	594,314	1,124,549	505,321	87,945b	183,919b
Springfield	211,825	254,501	233,963	269,888	226,528
Tacoma	882,088	681,063	834,346	662,123	.....

a. Street lighting rate reduced from 2½ to 1c per k.w.h.
b. Decrease due largely to $500,000 increase in interest and $700,000 increase in depreciation over 1930, resulting from large plant expansion.
c. Due to omission of depreciation charge, corrected in following year.

The manner of disposal of these profits sheds further illumination on the community benefits derived from the undertakings. First and foremost is the conservative and thrifty policy of plowing earnings back into the plants to get rid of existing debt and limit the amount of borrowing for expansion. Again the figures tell the story (Table III). Against a combined plant value, after deduction of current liabilities and depreciation reserves, of $179,295,829 there was outstanding at the end of the 1933 fiscal year a bonded debt of $82,161,805. In other words, the eleven plants are 54.1 per cent paid for from surplus earnings and are well on the way to become debt free, with no fixed charges to stand in the way of still lower rates. The rapidly growing Pasadena plant, for example, has issued no bonds in ten years and has reduced its bonded debt to $327,000.

TABLE III

Value and Bonded Debt of Municipal Lighting Plants in Cities of Over 50,000 Population

	Net Assets[a]	Bonded Debt	City's Equity
Glendale	$ 1,642,173	$ 66,500	$ 1,575,673
Hamilton	2,571,378	145,170	2,426,208
Holyoke	2,051,205	708,293	1,342,912
Jacksonville	9,440,893	1,387,500	8,053,393
Kansas City	5,584,081	2,344,000	3,240,081
Lansing	7,639,792	2,741,000	4,898,792
Los Angeles	75,520,368	35,216,000	40,304,368
Pasadena	6,781,049	327,342	6,453,707
Seattle	44,700,550	31,002,000	13,698,550
Springfield	3,646,263	265,000	3,381,263
Tacoma	19,718,077	7,959,000	11,759,077

a. Total assets less current liabilities and depreciation reserve.

CONTRIBUTIONS TO TAX RELIEF

Reinvestment in plant, however, by no means exhausts the community uses made of profits. Jacksonville, Florida, is the outstanding example of the utilization of a municipal lighting plant to

effect heavy reduction in general property taxes. Whatever may be said of the desirability of the policy it has certainly produced results. By maintaining moderately high rates, as previously shown, the plant was able to contribute $1,275,000 to the general fund in 1932, an amount well over half the city tax levy of $2,182,951. In 1933 the city was able to lower the levy to $1,254,709 by transferring $1,820,568 from lighting plant income.

While Jacksonville is the one plant in the group which emphasizes the policy of effecting large reductions in general property taxes rather than that of low rates to consumers, most of them make less conspicuous contributions in money or services to the general funds. The Seattle lighting department, for instance, pays the general tax fund three per cent of its gross revenues, $125,642 in 1933. Interest on the lighting plant's bank deposits, approximately $87,000 over the past four years, is credited to the general fund. The department has cashed some $400,000 of general city warrants, some of which are not immediately payable, and, finally, has made an ingenious reduction in the burden of welfare costs. Recognizing the need for electricity of families unable to pay regular rates for service, the department agreed with relief agencies to furnish the service at a flat rate of two cents per k.w.h., a figure which was in a number of cases below cost.

The Tacoma charter provides for a tax of up to 7½ per cent on its plant's gross earnings and during recent years the full amount of the tax has been levied. The tax amounted, in 1932, to $148,597; in 1929 it was $165,831. Furthermore the plant pays not only all the salaries of its own employees, but 30 per cent of the salaries of all general municipal employees who do any work at all for the utility.

In Glendale there is similar provision for reimbursement of the city for work done by general employees for the lighting plant, but the schedule is more generous, the public service department paying 40 per cent of the city manager's salary and a like percentage of the city attorney's, 50 per cent of the salaries in the city treasurer's office, 60 per cent of the purchasing department and 75 per cent of the accounting department salaries.

The Pasadena Light and Power Department in 1933 turned over $200,000 to the general fund to be used for poor relief and in addition undertook work relief projects entailing heavy outlay. This department has in recent years advanced the city almost a million dollars for a municipal golf course, an auditorium, and other public buildings.

The record of Los Angeles has also been noteworthy. As noted above, the city's bill for street lighting was reduced by $385,000 a year. From 1931 to 1933 the power bureau transferred to the city $537,781 on account of the St. Francis Dam disaster, although this was no obligation of the bureau and was done merely as a means of tax relief. For direct unemployment relief the power bureau transferred $668,750 up to June 30, 1933, and during the fiscal year ending last June the board of water and power commissioners transferred $1,250,000 to the general city fund, $450,000 specifically for unemployment relief, and the remainder for general tax relief.

LOW STREET LIGHTING CHARGES

The fact that all of these eleven large plants have continued to operate profitably through the depression and that sizeable portions of their profits have been utilized directly for general city purposes, should not obscure the fact that indirectly, too, they are making possible reductions in the tax burden. This is particularly accomplished through supplying the municipality current for street lighting and other municipal purposes at rates which are exceptionally low.

Mention has already been made of reductions in street lighting rates which have occurred in Los Angeles and Pasadena. Similar reductions have been effected in the other cities also. The amount of maintenance and service included with the established rates varies so from city to city, among both publicly owned and private plants, that accurate comparisons are difficult to make. It is clear, however, that when cities can obtain street lighting current for one cent per k.w.h. (Pasadena, Seattle), 1.5 cents (Tacoma, Springfield), or at the somewhat more flexible "cost" (Kansas City, Lansing), its taxpayers are receiving definite relief.

The ability to provide citizen owners with such genuine and varied dividends is not, of course, accidental. There are a number of factors related to the financing and management of municipal plants which make possible the economies from which low rates and high returns may result. One of the most important is the cost of personnel. For the publicly owned enterprises, nontechnical administrative officials are practically limited to the boards of advisors made up of leading citizens serving with nominal, if any, salaries. Not only are large economies effected through the elimination of the overhead required by expensive advisory and administrative positions, but—less commendable—technical heads are paid comparatively low salaries. The salaries of the men in charge of the eleven plants discussed here range up to $18,000 but the median is $4,200.

The elimination of high salaries for administrative and technical officials is supplemented by several other special types of economies by the municipally owned plant. Interest rates on borrowed capital are low, and debt charges are becoming progressively lower as bonds are retired from surplus and new capital is provided from the same source. The absence of speculative interest and financial manipulation eliminates the pressure for a "fair return" on an inflated value, and, moreover, no management or holding company fees need be paid. Relatively little expense is devoted to publicity and the securing of new business by municipal plants. Political and propaganda items are practically omitted from their budgets. As a final factor, municipal plants, as a rule, practice strictest economy in operations and operating personnel, part time services of existing officials and offices are utilized, ostentatious administrative offices and equipment are avoided, and numerous ingenious devices for cutting costs are employed. Regulation which grants to private plants the right to earn a liberal return above costs tends to encourage extravagance on the part of enterprises operating under monopoly conditions. Public managements, on the other hand, have low capital and operating costs as a dominant incentive, the realization of which permits the full benefits of ownership to the city rather than to a limited number of officials and stockholders.

The charge is so often made that municipal electric plants are successful primarily because of their freedom from the taxes paid by private companies, that it is essential to survey, from time to time, the concrete values which do accrue to the city from its ownership. That the municipally owned plants in the eleven cities of over 50,000 population have all been able to weather the depression, not only without adding to the taxpayers' burden but markedly decreasing it in various ways, is truly important; but even more significant is the reserve financial strength upon which the owning cities have been able to draw in an emergency. It is time to recognize that municipal utility enterprises are not intended to be feeble echoes of similar private utilities. They stand firmly on their own feet as invaluable coöperative service agencies.

Tax Free Cities

Shall cities finance themselves from profits of publicly owned utilities

LOUIS BARTLETT

Former Mayor of Berkeley, California

During the reign of terror in the French Revolution, Marat, who had sent hundreds of men to the guillotine, was assassinated by Charlotte Corday as he lay in his bath. "Served him right," said many, "for taking a bath!"

Since that day, as many changes have occurred in our governmental methods as in our personal habits. Jefferson rode horseback to his inauguration, trotting over an unpaved street in the city of Washington. The paving of streets had not become a municipal function. Just one hundred years ago, Horace Mann scandalized the Brahmins of the Back Bay district of Boston by proposing that education should be free to all children, and paid for out of taxes. He was actually going to tax property that no one might be illiterate!

As a boy, playing in the sand dunes that are now San Francisco's downtown district, my chief joy was to chase the volunteer fire department trucks to a fire, for San Francisco then had no paid fire department supported by the city.

So there we have it in two lifetimes. Cities have taken on the new functions of street paving, public schools, paid fire departments, sanitary sewage systems, and many others.

Cities are always doing that. As they grow, as the standard of living rises, they must perform other services than those that sufficed the village of a hundred years ago. All cities with any pretense to fulfilling their civic duties furnish a plentiful and pure water supply. About 2,000, thoroughly alive to their responsibilities, are supplying electric energy and are doing it better and for less money than the private companies in the same vicinity. Some supply gas, and the time is not distant when it will be universally recognized that water, gas, and electricity are as essential to well-being as police, good streets, good sewers, fire protection, parks, and the many things that make urban life possible and enjoyable.

"Ah, but," some people say, "our taxes are too high now. We should not have to pay taxes for our water, our gas, and our electricity!"

But do we not pay taxes for them as it is? To be sure our bill does not come twice a year from the city hall. We get it twelve times a year—once a month—from the gas company. But isn't it a tax for something everyone in the community needs? More people pay gas bills than city or county or state taxes. The electric bill is a tax that practically no adult escapes. And how big is it?

The figures are available in practically every state of the Union. Let us take one illustration.

California's Gas and Electric Bill

In California the total appropriated for the support of the state government during last year was $126,000,000. In the last year for which records are

available the people of California paid $188,000,000 for gas and electricity. They paid the power and gas companies almost 50 per cent more than they paid for the support of their entire state government.

Their city governments cost $143,000,000. So they paid over 30 per cent more for their gas and electricity than for running their cities.

Many of the more progressive cities of the country distribute power to their inhabitants. In California there are twenty-one of them. Some time ago I prepared a report for the Commonwealth Club of California showing an accurate comparison of the rates charged by the cities and those charged by the private companies. The detailed study was made by J. F. Byxbee, city engineer of Palo Alto, and his graphs and figures were subjected to the scrutiny of the private companies' engineers for a month before the report was finally submitted.

These graphs show that with the exception of three small plants, the cities charged less than the largest private company for power used for lighting, cooking, and heating homes.

Where the Pacific Gas and Electric Company sold thirteen kilowatt hours a month for one dollar, Los Angeles, Glendale, and Burbank sold twenty-one. Where it sold thirty-seven kilowatt hours per month for two dollars, Pasadena, Palo Alto and Healdsburg sold from forty-six to sixty kilowatt hours per month. Where it sold sixty-six kilowatt hours per month for three dollars, Redding sold ninety-two; Healdsburg, one hundred ten; Ottawa, Canada, two hundred twenty-eight; and Tacoma, Washington, two hundred thirty. Similar differences appear in the rates for commercial and industrial power.

DO CITIES OPERATE AT A LOSS?

Do the cities lose money doing this? Do they have to raise money by taxes to make up any deficits? The same report is illuminating on this subject. Pasadena, California, out of a total gross revenue of $1,688,000 paid only $867,000 in expenses. Its net profit from the operation was over 46 per cent of its gross receipts. Redding and Anaheim made net profits of 45 per cent; Glendale of 44 per cent; Lodi, Healdsburg, Alameda and Riverside of between 35 and 40 per cent. Palo Alto, Roseville and Tacoma, Washington, of over 30 per cent. The least net profit made by any of these cities was 19 per cent in Burbank, where the city competes with the Southern California Edison Company for customers.

THE TAX ISSUE

But what of taxes? The private companies pay taxes. The cities' plants do not. Let us get a clear picture of this. A tax is an involuntary contribution to the cost of government. In California, up to this year, the total of all taxes paid by the private companies was about 10½ per cent of their gross receipts.

The net profits of the cities range from 19 to 46 per cent, half of them making net profits of over 32 per cent, and only one making less than 25 per per cent.

What becomes of these net profits? No public official gets them. They go into the city treasury and are voluntary contributions to the cost of the city government. These voluntary contributions average nearly three times the amount of the involuntary contributions in taxes paid by the private companies.

A very interesting comparison of the income from taxes and the net earnings of the plants of California is found in "Public Ownership On Trial," by Frederick L. Bird and Frances M. Ryan.[1] These net earnings amount to well over one-third of the total income from taxes. If to these net earnings of

[1] P. 46.

the electric plants were added net earnings from water and earnings similarly possible from gas, at reduced rates, it is probable that they would approximate the total income of the cities from taxes. In fact, that is done in over eighty cities in the country which use these profits to run the city government and levy no taxes for that purpose.

But let us return to the taxes that are levied upon us by the gas and electric utilities in their monthly bills. It is difficult to obtain accurate information concerning the expenses of the private utility companies. They hide a lot of interesting data under such general headings as "Other Operating Expenses." I once asked a friend if he belonged to any secret societies. "Only two," he replied, "the Masons and the Pacific Gas and Electric Company."

Fortunately the California Railroad Commission has ascertained some of these facts and they have been recently published by the State Senate.

Very properly in these hard times our attention has been turned to effecting economies in government. "Economy leagues," "taxpayers associations," and other bodies are springing up everywhere, calling attention to the wastes that can be stopped. Salaries—even moderate and sometimes even inadequate salaries—are being cut until it is probable that many essential functions will be eliminated or upkeep neglected.

In California, we have two state bodies that are taking the lead in promoting this economy plan, the state Chamber of Commerce and the California Taxpayers' Association. Both are supported by the most influential business men in the state, both have on their boards of directors heads of the largest power companies, railroads, and other public utilities. Last year they submitted a plan for a drastic reorganization of the state government to a so-called "fact-finding committee" of the State Senate which, in turn, proposed it to the legislature.

Among other things, they proposed cutting the total of all salaries paid to the seven members of the Supreme Court of California from $77,000 a year to $56,000 a year. And the Senate actually voted for that plan!

WHAT PUBLIC UTILITY MEN RECEIVE

But meanwhile, what did these public utility executives who proposed this cut do with their own salaries?

At that time, A. F. Hockenbeamer, president of the Pacific Gas and Electric Company, drew $75,000 a year, enough to pay the reduced salaries of the seven Supreme Court judges for one year and four months.

Paul Shoup, president of the Southern Pacific Railroad, who recently received $100,000 a year, was "kicked upstairs" at a salary, as reported by the press, of $125,000 a year—enough to pay the proposed salaries of the entire Supreme Court for over two years.

One company, the Pacific Gas and Electric Company, paid one salary of $75,000 a year, one of $40,000, seven of $21,600, two of $18,000, seven in excess of $11,000 and 94 salaries in all of over $5000 a year.

The Southern Pacific Railroad, besides the large salary paid its president, paid one salary of $36,000 a year, one of $35,000, two of $30,000, two of $25,000, two of $24,000, one of $20,000, two of $18,000, three of $15,000 and in all 160 salaries of more than $5000 a year.

How are these public utilities cutting down their expenses which, after all, are taxes upon the rate payers? Are they operating economically? Are these fantastic salaries the only extravagances —to use a very mild term—which they permit themselves?

A very illuminating exhibit was forced out of one of these companies, the San Joaquin Light and Power Company, by the California Railroad Commission at a rate hearing. The company was required to submit in detail

(Continued on Page 625)

The Municipally Owned Utility: Profits or Service?

Profit-making policy a dubious substitute for taxation and prevents fullest use of utility service

WADE S. SMITH

National Municipal League

THE extent to which public utility enterprises should be made to contribute to the support of government is one of the most live topics of the day. In many sections of the country carefully prepared "educational campaigns" are being promoted by the private utility groups to impress upon the citizen the vast amount of taxes which utilities are paying, while from all over the country come reports of cities and towns operating their governmental services without levying a cent of taxes through profits from municipally owned utilities.

Private owners decry cut-throat competition resulting from the wholesale tax exemption of publicly owned enterprises. Public ownership advocates are militant and in several states public-ownership plans are spreading like wildfire as the most effective means of lowering what are viewed as excessive privately owned utility rates. It is pertinent to examine the part played by public utilities, and particularly those municipally owned, in our cities today.

It is worth noting at the outset that American municipalities lag far behind those of Europe in the extent and variety of proprietary services. Abroad, a great number of functions, including transportation, communications, and housing, are almost universally municipally owned and operated. In this country, ownership and operation of the water supply system is about the only utility service which is common to the great majority of our cities. Nevertheless, there were in 1932 some 1,802 municipal electric light and power plants in this country, as compared with 1,627 private establishments.

Even though the municipal establishments outnumbered the private, they constituted a minor element so far as their part of the total service supplied goes. The private utilities, according to *Electrical World,* had 90.5 per cent of the customers, sold 94.3 per cent of the energy, and received 93.5 per cent of the revenue from the ultimate consumer in 1932. In spite of this, municipal ownership plays an important part in the functions of many municipalities, and it is to the interest of the taxpayer and the consumer to examine pretty closely the present tendencies in utility policy.

WHAT OF UTILITY TAXES?

In 1932 the private electrical industry paid some $217,000,000 in taxes, which amounted to about 12 cents per dollar of consumer revenue, according to figures compiled by the Edison Electric Institute. These figures agree fairly closely with those of the Census of Electrical Industries, which indicate that private establishments paid in taxes in 1932 approximately 10.7 per cent of their total operating revenue. This ratio of taxes to revenue had increased

from 3.4 per cent in the year 1903, to revert to the EEI's figures. According to the National Electric Light Association, "from 1912 to 1929 gross revenues increased approximately 650 per cent, but taxes increased 7,000 per cent, or more than ten times as fast."

Contrast with this the fact that municipal establishments are almost universally tax exempt. As any one who examines the public utility journals in even the most casual manner will note immediately, this question of tax exemption of municipally owned utility plants is a sore one to the private interests. Nevertheless, the principle seems clear that such functions when exercised by government should be tax free, unless strong reasons to the contrary exist in special instances. As Pond says: "If . . . the providing of these utilities is a public purpose and the property so used is devoted to a public trust, for the acquisition of which money may be raised by taxation because the purpose is a public or municipal one, the property so acquired and used should be entitled to exemption from taxation the same as other municipal property."[1]

What factors might reasonably intervene to make undesirable the exercise of the right to tax exemption of these municipal utilities? A recent report of one of the larger Illinois cities said: "There are approximately one hundred cities and towns in the United States that levy no taxes for general municipal purposes because city-owned and operated utilities make a profit large enough to cover the entire cost of carrying on the city government." A casual examination of Messrs. Burns & McDonnell's "Results of 365 Municipal Lighting Plants" shows that "net profit" plays a conspicuous part in virtually every statement included. Though actual figures for the entire municipally owned field are not available, there is little doubt that by and large municipal light and power plants are contributing in "profits" sums as large, or larger, as would be paid in taxes were they private establishments.

What is the practical result of such a policy of defraying general governmental costs with profits from municipal utilities? There are two factors at least to be considered. First, the effect of such "profits" as indirect taxes on the consumers of the service, and second, the effect of the "profit" policy on rates and use of the service.

PROFITS AS INDIRECT TAXATION

We are definitely committed to ability-to-pay as the basis of our taxation system. If governmental revenues are to be obtained wholly or in large part from "profits" of utility services, it is pertinent to inquire whether or not such a method of apportioning governmental costs is in harmony with the rest of the tax system.

Undoubtedly the fact that the consumers of electrical power are practically identical with and include virtually all of the city's taxpayers validates the idea that municipal establishments should be tax exempt. But what if the municipal utility goes farther in its conception of its function —as we have seen many do—and considers it fair also to incorporate in the charges costs of all or part of other and non-proprietary functions of the government? Is the fact that the average consumer, or a large number of average consumers, would also be taxpayers a valid reason for securing governmental revenue on the basis of the amount of the utility service consumed? Obviously not. Consumption of electrical power may have little relation to ability to pay. So far as the utility is used by industrial and commercial establishments, increased consumption of elec-

[1]Pond, *A Treatise on the Law of Public Utilities*, § 403.

trical energy might indicate to some degree increased earnings and hence at least a nominal expectation of greater taxpaying ability. But as regards the more *numerous* body of consumers—the consumers of domestic power—the amount of service consumed is a particularly inappropriate index of taxpaying ability.

The whole theory of having government provide the service is itself a negation of the idea that use of the service indicates ability-to-pay. The universal need for the service at cost, or as near cost as is practicable, is the city's justification for engaging in the business. The utility is not established as a vehicle for indirect taxation, nor is the rest of the tax system adjusted to make such indirect taxation result in an equitable distribution of the total cost of government among the total body of taxpayers.

In so far as municipal utility establishments are used to produce revenue for general governmental purposes, they are getting out of their field. Such revenues distribute the tax burden without reference to any known basis, they unsettle the rest of the taxation system, and they further constitute an indirect tax subject to only uncertain and devious control by the voter.

RESTRICTION OF USE

Now, as regards the second factor in the "profit" policy, that of the effect of municipal profit-making on the utilization of the service. It has already been noted that the major reason for having a municipality engage in a utility is to secure service at a cost such as will make it available to the masses. Unless there were powerful reasons to the contrary, this would supposedly indicate a service-at-cost enterprise.

Some publicists have given considerable emphasis to the advisability of furnishing certain services below cost, on the theory that they are so important to society as to require this special consideration of those who might be in some way incapacitated and unable to secure the service otherwise. Housing for the low-income groups is an example. No serious arguments have been advanced that electric light and power should be provided on this basis, but there is every indication that the service is of such social importance that it should be provided to the maximum number of consumers at rates to encourage the maximum variety of uses.

The importance of electric power to industrial and economic growth is obvious. The availability of cheap industrial power is affected, however, by a peculiarity of the power industry, such that the costs of production, and hence rates, depend on the extent of the utilization of other types of the service. The technical reasons for this need not be discussed here; suffice it to note that the capacity of the generating and distributing systems are not used anywhere nearly to the optimum, chiefly because peak-load requirements for industry are not offset by similar utilization by other consumers in off-peak periods. The technical problem of the municipal utility, as well as the private establishment, is to increase its total utilization so that as nearly as possible it will carry its maximum load for a full twenty-four hour period. The more nearly utilization of capacity is complete, the nearer the minimum production cost can be approximated.

Now, it might seem that, inasmuch as electrical energy is so necessary as to constitute a public service, the demand for it would be more or less inflexible. Experience has shown, however, that the element of price acts as directly on demand for this service as in the case of less important commodities. For this reason, and because, as we have seen above, production costs are dependent in large extent on the amount of ca-

pacity utilized, the producer of electrical energy finds himself in a vicious circle. Demand depends on low price, low price depends on cost, cost depends on the extent to which capacity is utilized—or on demand. And domestic service, being the slack which must be taken up if total production costs are to be lowered, occupies a particularly crucial position. Domestic utilization is the key which unlocks lower costs all along the line.

PROMOTING DOMESTIC USE

The effect of rate charges on utilization, particularly domestic utilization, is then of prime importance. As H. W. Peck says: "The householder can substitute gas, or physical drudgery, or suffer deprivation of the service, unless the price is within his purchasing power. A good example of this is found in the history of the average monthly consumption, cost per kilowatt hour, and average monthly bill of domestic service in Ottawa, Canada. In 1914, when the net cost per kilowatt hour was 5 cents, the average monthly consumption was 19 kilowatt hours, and the average monthly bill 95 cents. In 1926, when net cost per kilowatt hour was 1 cent, the average monthly consumption was 179 kilowatt hours, and the average monthly bill was $1.75."[2]

Further evidence along the same lines is provided by R. L. Baldwin,[3] on the experience of the city of Winnipeg. Analyzing the effects of high and lower rates, he says: "The use evidently is limited to lighting purposes for the higher rate. As the rate is reduced, the use is increased by a freer use of appliances; and as the rate is further decreased, the use of heating appliances makes very rapid increase in use with further and smaller decreases in the rate. It is interesting to note that where these large uses are made, a large portion of it is due to heating, cooking, and water heaters. The city of Winnipeg has developed this load so that it is the largest part of the domestic use." There are enormous possibilities of increasing domestic use, if only rates are fixed low enough to permit extensive utilization.

There is little indication that this fact has made much impression on the municipal power plants in this country. The larger private establishments are beginning to give serious thought to the function of promotional rates in increasing revenue and decreasing unit costs. But their zeal seems to be ill matched by the municipal establishments, a large number of which, as we have seen, consciously set out to charge all the traffic will bear in the name of tax-reduction-through-utility-profits. To the extent that they achieve their "taxless town," they succeed also in restricting the utilization of the electric service.

UTILIZATION OF PROFITS

The privately owned utilities are, for better or worse, in the hands of the various state public utility commissions. Whether their contribution to governmental revenues is adequate, and whether their charges are such as to insure fullest utilization of the service, are matters for the commissions and the state legislatures. However, the greater the taxes, the higher the rates, and the more the restriction to use.

The municipal plant strikes nearer home. Its policy is determined as a rule by bodies only slightly removed from the ultimate consumer in his capacity as a voter on municipal matters. Voters can demand that the light and power plants finance their ideal "taxless towns". Or they can demand rates such as to enable the widest possible use for the electrical energy produced. But their decision should be intelligent,

[2] Mills and Starr, *Readings in Public Finance and Taxation*, p. 234.

[3] R. L. Baldwin, "Increased Use of Electricity by Domestic Consumers with Decrease in Rates," *American City*, May 1934.

based on actual consideration of the potential dangers and benefits involved.

There seems little likelihood that there will be any wholesale abandonment of the principle of exempting municipal utilities from taxation. In some instances where cities have been accustomed to secure large revenues from municipal utility "profits" it may be wise in abandoning this practice to include as part of the production cost a tax comparable to that which would be charged if the plant were privately owned or managed. But in view of the tremendous importance of electrical energy in our urban civilization, voters and taxpayers might better keep their municipal establishments tax exempt, eschewing all attempts to have them make a "profit", and striving to secure the lowest possible rates and the highest possible utilization. Private ownership will then have a real incentive to lower its costs to a competitive level, and the utility can take its place as a bona fide service function to the local government.

LEAGUES OF MUNICIPALITIES

(Continued from Page 600)

Association was successful in securing the defeat of a particularly vicious amendment to the deficiency bill. The amendment, proposed by Senator Logan of Kentucky, pertained to PWA loans to cities and would have completely ruined the eligibility of all revenue-producing projects such as light and power, water, etc.

The Johnson bill, above referred to, which amends the federal judicial code to prohibit utility companies from securing an injunction against the orders of a state public utility commission or of a similar *municipal* regulating commission, was actively supported by the leagues of municipalities. This fact no doubt greatly aided its passage.

In addition to the part the leagues have played in representing the public's interests in utility policies, state as well as national, some leagues have also undertaken to represent the public's interests in utilities rates. For example, when the Virginia Corporation Commission ordered an inquiry into the rate structure of the Virginia Electric and Power Company in 1933, several of the cities served by that company thought that their interests could be more adequately protected if they employed their own utilities consultant, to make a study of the company's rate base and present this testimony to the commission. These cities, acting through the League of Virginia Municipalities, employed John Bauer, who made such an impressive report to the commission as to preclude the closing of the case on the basis of the report of the commission's own engineer.

At the time of this writing several North Carolina cities, acting through the North Carolina League of Municipalities, have similarly employed Dr. Bauer to represent them in their efforts to secure a reduction of telephone rates. Although the commission has not yet issued an order, it is expected that the telephone rates in North Carolina will be considerably reduced as the result of this effort.

These are only a few examples of how the leagues of municipalities represent the public's interests in utility rates and policies. Although they have their effect, these attempts on the part of the leagues are only spasmodic and at best they only represent a scratch on the surface. What is needed is a definite and continuing policy of study and analysis of utility problems, such as is contemplated in our plan for a permanent utilities bureau to be established in connection with the leagues of municipalities.

Requisites of Effective Public Ownership[1]

Comprehensive survey needed in every state for the establishment of a definite utility program

JOHN BAUER

Director, American Public Utilities Bureau

ASSUMING that public ownership and operation will be greatly extended in the years just ahead, also that the extension will be desirable from the public standpoint if it is properly attained, this prospect raises important questions which should be thoroughly considered by public officials and others who are interested in or will be responsible for the success of the undertakings. There are four special questions which require attention with regard to the advancement of public ownership:

1. What utilities should it include?
2. Upon what physical and financial basis should it be established?
3. What type of business organization should it assume?
4. What territorial scope should it contain?

Heretofore the proponents of public ownership have devoted themselves somewhat indiscriminately to the "cause," without sufficient regard to these basic questions. They have rather assumed that public ownership is good in, of, and by itself, without regard to the circumstances of any particular utility, and without considering adequately the costs, appropriate type, and scope of organization.

WHAT UTILITIES?

The services which are usually included under "public utilities" are electricity, gas, water, street railways, buses, and telephone. They are all more or less essential to modern community life. They all involve primarily the same public interest with respect to adequacy and standards of service, and especially rates charged to the patrons.

Now, should all these utilities be included indiscriminately in a public ownership program? Most proponents of public ownership are inclined to make little distinction. They would include all utilities in the public ownership undertakings. We desire, therefore, to raise particularly the question whether a differentiation should not be made with relation to relative importance to future public needs and welfare.

To illustrate, take electricity and manufactured gas. They are both recognized utilities; both have been and are important in community life. Electricity, however, has been and is on rapid up-grade as to development and has attained the position of paramount utility. It ramifies practically into every phase of industrial, agricultural, commercial, residential, and community activity, and has been moving forward at an increasing tempo as to public importance. It places the distinctive stamp of power age upon an essentially new economic era.

In contrast to mounting importance of electricity, gas has not even retained

[1]An address delivered before a special meeting of the Utility Users Protective League of New Jersey, September 21, 1934.

a static position. It has been regressive, not progressive. Its importance had always been limited largely to domestic use; it had never reached widely into other domains. But even as to residential service, electricity has already taken over a large part of the use formerly furnished by gas and is now rapidly invading its principal remaining function, that of cooking and water heating. If electric rates were now independently fixed in the interest of the consumers and the untrammeled development of the industry, they would produce rapidly increasing residential consumption and would probably result in replacing gas under most residential conditions.

Electricity is an active competitor of manufactured gas, and apparently has dominant advantages for future development. To a very large extent the position of gas is being protected by unwarranted rate restrictions upon its competitor. On a straight competitive basis, and according to intrinsic merit, electricity promises to replace gas to a large extent as a vital public utility.

The situation is, of course, different with respect to natural gas where it is available at low cost and high heat content. It occupies a much different position than manufactured gas. Its importance, however, depends upon the particular circumstances of availability. It is subject to territorial as well as functional limitations. It is not as comprehensively and universally an all-pervading utility as is electricity.

Here are important differences. A program of public ownership should certainly include first, and above every other utility, electric power. But it should regard gas very cautiously and critically. The two have vastly different bearing upon future public needs and welfare. The one should be organized publicly; the other might well be excluded from a public ownership program.

The same differentiation appears between street railways and buses. Both are used as means of community transportation. Street railways, however, have stood out signally as a regressive utility, while buses have moved rapidly forward and constitute the progressive means of transportation. They should certainly be included in a wise public ownership program, but the street railways should be regarded most critically because of their diminishing utilization.

Our purpose is not to demonstrate the relative importance of the different utilities, but merely to emphasize the fact that there are great differences which should be taken into account in a public ownership program. This should not include all utility services as if they were of like significance.

WHAT BASIS?

The first question as to what utilities really extends to the second—upon what physical and financial basis should public ownership be established? This applies both to the capital cost of instituting the public plant and the annual cost of furnishing the service, including fixed charges on investment.

The first question is that of capital cost and its justification. This requires the determination of necessary investment to provide throughout a new plant which would embody all available improvements and especially designed for the conditions of service to be supplied. It calls also for consideration of the existing properties, their physical and functional conditions, and their relative value compared with the cost of a new and up-to-date plant.

Next, assuming that the governmental body has the right to construct new properties throughout, or to purchase or otherwise acquire the existing ones, it should give consideration to the alternative advantages, but also to the reasonable rights of the companies and fair treatment of investors. If it can

get the existing properties at a price economically equivalent to the cost of a new plant, it should adopt the purchase policy. By such acquisition it would not only have just regard for investors, but would prevent useless duplication of capital and would avoid competition between the public and private plants.

The price, however, that the public body can afford to pay depends also upon the economic status of the utility. In the case of electricity, it could afford to pay for the existing properties not only an amount fully equivalent to the cost of the new plant, but it might even advantageously add a considerable sum to obviate company opposition and to facilitate immediate possession. In the case of manufactured gas, however, the situation would be very different. The governmental unit would probably not be justified in any case to build a new plant, and would have to consider most carefully the purchase of the existing properties in the light of developments in the electric utility. The price should take into account the fact that gas is a regressive utility.

The same relative differences exist between street railways and buses. A municipality might be justified to pay a moderate sum for the street railways to obtain control and then to eliminate them as justified in the face of bus developments. It should recognize the fact, however, that the vital transportation facility consists of buses. It would be justified to purchase the existing bus facilities at an equivalent cost new price. But if it acquired the street railways on the same basis, it would place a permanent handicap upon the efficiency of public operation.

The purchase price or the cost of establishing the public plant in relation to the function of each particular utility should receive paramount consideration for the future success of public ownership. If the utility is to be successfully operated publicly, it must not be overloaded by capital costs and fixed charges. The relative costs and their justification must be critically considered from the standpoint of the economic status of the different utilities.

WHAT TYPE ORGANIZATION?

Public ownership has been discussed almost generally from the standpoint of ordinary municipal or other public organization. Most municipal service activities are usually included in the department of public works, or some other regular subdivision of the local government. The organization, control, financial set-up, and management are essentially the same as for other municipal departments.

For successful public operation of utilities on comprehensive scale, consideration must be given to type of organization especially suited to the particular requirements. Special provisions are needed both as to control, management, and finance. So far as practicable, each utility should have its own financial and operating set-up so that its costs and efficiency may be separately determined.

We suggest particularly that the organization should be in the form of a special public corporation. While it would be owned and controlled by the governmental body, it would have the advantage of separate entity in carrying out its specific function. It would have greater flexibility in the capital set-up and financial control, and could better adjust the selection of management and personnel to the needs of the service.

Perhaps the greatest criticism or cause of doubt with respect to the success of public organization appears in the political control that is commonly expected. If public operation is to be successful, it certainly must be placed under the management of people who are devoted to the public function and

are competent to do the work. The utility must not be subjected to political domination. Success requires the elimination of spoils and the placing of management and operation exclusively on merit. Can that be accomplished?

The organization of public ownership within separate corporate structure greatly facilitates the elimination of politics from management and operation. The new structure corresponds with the new requirements. The corporation can be started and kept more readily on a merit basis than an ordinary public department.

WHAT SCOPE ORGANIZATION?

Public ownership and operation have been considered mostly from the standpoint of municipal organization. Inasmuch as the services are largely furnished within municipal boundaries, the tacit assumption has been that organization and operation should likewise come within municipal grouping.

We believe that if public ownership is to be greatly and successfully extended, it must be reconsidered with respect to the scope of territory to be included within its organization. While it is true that the services are mostly furnished within municipal boundaries, in many or most instances the desirable scope of most efficient organization and management extends beyond the territory of any one municipality. It is particularly true of large metropolitan areas. In practically all such territories the effective area economically served by a utility is much greater than that of any one municipality. Usually it includes many municipalities, sometimes many hundred.

One reason for the development of the present holding company systems is the underlying fact that the utility properties are advantageously organized so as to include several or many municipalities, or indeed far separated population centers. Effective public organization, therefore, must not stop artificially with municipal boundaries. It must include all the territory that forms an economic unity from the standpoint of the particular utility and its services to the public.

The effective scope of public organization has particular significance in electricity. It has indeed a two-fold basis as to coördinated function. The first includes generation and transmission; the second, distribution. Under the present state of technology and public requirements, the first can seldom be organized and operated efficiently on a sole municipal basis. It should always include at least an entire metropolitan district which forms a homogeneous territory from the economic standpoint. In most instances it would probably be advantageously organized on a state-wide basis.

The second function, the distribution of electricity, does correspond more nearly or frequently with municipal boundaries, or can be made to fit municipal areas without utterly prohibitive waste. In most instances, however, the effective territory is greater. It includes the entire area that can be advantageously brought together within a single unit of operation. In some instances this may be properly limited to a single municipality, but mostly it will include adjacent territory and sometimes a large metropolitan district consisting of many hundreds of individual municipalities.

As we see it, an effective public ownership program with respect to electricity would consist, first, of state ownership and operation of generation and transmission; and, second, municipal or sectional organization of distribution. The two would be coördinated to furnish a comprehensive system of public organization for the entire state. The practical pattern has been furnished by the Ontario Hydro-Electric system. Through such integrated organization

the maximum efficiency could be realized, and the state power resources used to the greatest public advantage.

The desirable scope of organization depends upon the particular circumstances of a utility. The two-fold pattern that fits electricity would not be suited to manufactured gas, or to street railways and buses. State organization must be given much more consideration than it has received in the past. Moreover, national organization will be essential with respect to facilities and services that are interstate in importance and scope.

PUBLIC OWNERSHIP PROGRAM

What is necessary throughout the country is thorough stock-taking of the utilities and the public needs. A comprehensive survey is needed in every state with respect to each utility for the establishment of a definite program. This should include not only public ownership but also revision of policy with respect to regulation.

In every state the basic facts should be systematically determined from the standpoint of public advantage. Such inquiry should include all aspects of organization, management, costs, regulation, the relative importance of the utilities, the basis of public acquisition, and especially the type and scope of organization in relation to public needs and advantages.

The proper approach to a comprehensive program is furnished by the State of New York. The legislature at its last session provided for an investigation to include all aspects of public interest. This will be conducted under a legislative committee, with the special guidance of Judge John E. Mack as counsel. The survey and report of the committee should lay the foundation of an effective utility program for the entire state.

TAX FREE CITIES

(Continued from Page 613)

its expense accounts which were charged against the rate payers.

Among these it appeared that the dues and expenses of about fifty club memberships for the company's staff had been paid.

The San Joaquin Light and Power Company supplies power for a territory around Fresno, 200 miles from San Francisco, but the president of the company had his dues and expenses paid in the California Club, the Commercial Club, the Family Club and the Bohemian Club all of San Francisco, and five other out-of-town organizations.

He had an additional item, "Miscellaneous," which exceeded the amount that most people would regard as an ample budget for club dues for a year.

If we are trying to reduce the cost of government why not focus our attention on the taxpaying body that levies the greatest taxes upon us—our public utility companies? If the cities can operate an electric plant at an average cost, as in California, of 84 per cent of the cost to the private utility companies, making due allowance for taxes to get a fair comparison, the companies should be forced to make drastic reductions in their operating costs. Why is not this the best or at least one excellent method of approach to reducing our taxes?

No one wants to pay our city officials a starvation wage, nor to permit city property to run down. No one wants our schools hampered and the educational chances of the young taken away from them.

We all want gas and electricity at lower prices than we pay. By taking them over and having the cities operate them, we can get lower rates, better management, and build up a profit that will make our cities, if not tax free, at least able to support themselves with far lower taxes than now obtain.

NEWS OF THE MONTH

NOTES AND EVENTS
Edited by H. M. Olmsted

City Managers in Convention.—Financial strains and federal-city relationships were the principal themes of the twenty-first annual conference of the International City Managers' Association held in St. Louis, October 15 to 17. Ninety-one city managers from twenty-five states and Canada discussed problems arising from service-crippling tax limitations, from reduced standards of performance, from conflicts of municipal and federal policies on relief, public works, and housing projects, and from the vitally essential search for new sources of revenue.

The consignment of complete financial and administrative responsibility for unemployment relief to the federal government was the proposal made by Paul V. Betters, director of the American Municipal Association, and C. M. Bookman, director of the Cincinnati Community Chest. It was felt, however, that state and local governments should retain their obligation for the support of the aged, the disabled, and the "unemployables," and that there should be greater coöperation among relief officials in the various units of government.

In accordance with this sentiment the conference adopted a resolution calling for the appointment of a committee to prepare a federal-city program for relief, public works, and housing. In preparing the statement the committee will seek the coöperation of other national organizations of municipal officials. The committee consists of C. A. Dykstra, city manager, Cincinnati, Ohio; John N. Edy, city manager, Dallas, Texas; and C. A. Harrell, city manager, Binghamton, New York.

Distress resulting from the devastating effect of constitutional tax limitations was evident particularly in reports from West Virginia and Michigan cities. Hope of surmounting tax limitation campaigns in the November elections was expressed by city managers from Grand Rapids, Kalamazoo, and Pontiac.

One entire session was devoted to consideration of the best means of reporting municipal activities to the public as an antidote to unintelligent destructive attacks on government. The common means such as meeting the public, press relations, contacts with civic groups, and budget hearings were discussed with more unusual methods such as motion pictures, the use of the radio, and the holding of municipal exhibits and open houses. There was adequate evidence to indicate that public relations is one of the most significant problems faced by many city managers.

A problem of police administration assumed sufficient national significance to stimulate spirited discussion at the conference. It was found that many managers have been faced with the question of proper handling of police forces in times of labor disturbance. Louis Brownlow, director, Public Administration Clearing House, suggested that city administrations should be strictly impartial in preserving the civil rights of the parties to a labor dispute and that there should be no attempt on the part of the police to settle an economic and social problem which is still undetermined by the American people as a whole. Donald C. Stone, director, Public Administration Service, emphasized the need for professionalization of the police force in order to cope with the problem.

Concrete aids to city managers in the solution of their financial problems were pro-

posed by C. W. Ham, field consultant, American Municipal Association:

1. Centralized municipal purchasing on a state-wide or regional basis.

2. Establishment of a national municipal insurance company to write all municipal risks.

3. Establishment of a national municipal credit bank, possibly in connection with RFC, with a stated interest rate.

Officers elected for the coming year are: *President,* H. L. Woolhiser, Winnetka, Illinois; and *vice-presidents,* Henry Traxler, Janesville, Wisconsin; I. C. Brower, New Rochelle, New York; and Hollis R. Thompson, Berkeley, California.

CLARENCE E. RIDLEY

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Federal Government to Aid Schools.—Financial aid to public schools where state funds for education have been depleted by the depression has been assured by the President. The federal emergency relief administration has been directed to devise a plan for keeping the schools open for the next three months.

Allocations totaling from $2,500,000 will be needed to finance a minimum program, in the opinion of the President. State superintendents of education who have just completed a convention in the national capital, estimated that $3,000,000 would be necessary to open schools which otherwise could not begin their fall terms, and that $25,000,000 would be required to provide normal educational service.

United States News, October 8, 1934

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Tax Assessors Organize.—A nation-wide organization of city and county tax assessors was formed at a recent meeting in Philadelphia, under the name of National Association of Tax Assessing Officers. John C. Donehoo, city tax assessor of St. Petersburg, Fla., is president. The association plans as the first step in its program the gathering of information on all phases of assessment procedure and administration, and the publication of a manual to present such information and illustrate assessing problems of all sorts. The objects of the new association include improvement in tax assessment procedure and in the standards of the profession.

National Planning and Rural Life.—This topic will be discussed on November 16-19 at the Raleigh and Harrington Hotels in Washington, D. C., by the National Rural Forum. The necessity and technique of national planning in connection with agriculture and country life will be particularly considered, together with the improvement of programs for rural betterment on the part of existing agencies. A round table on local government is included in the agenda.

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Housing Projects With Federal Aid.—It was announced at the meeting of the National Association of Housing Officials in Washington, October 13, that of the $150,000,000 which had been made available for government housing projects under the housing division of the Public Works Administration, $63,000,000 had been definitely allocated, the remaining $87,000,000 had been ear-marked, and there were applications for $90,000,000 additional for which there were no funds. The $63,000,000 included projects in the following cities:

New York	$25,000,000
Chicago	12,500,000
Detroit	6,000,000
Cincinnati	6,000,000
Atlanta	4,800,000
Indianapolis	3,000,000
Cleveland	3,000,000
Montgomery	320,000
Nashville and Louisville together about	2,400,000

These federal projects are designed to house about 15,000 families.

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Tax Problem A Vital Campaign Issue in Ohio.—The gubernatorial campaign in Ohio has brought to the fore the vitally urgent issue of revenues for local government purposes, inasmuch as the new one-cent constitutional limitation on real estate taxes becomes effective on January 1, 1935, thus cutting present revenues from this source approximately in half. This prospect threatens widespread municipal bankruptcies and closing of schools—disasters that have occurred in various cases even with existing revenues. Martin L. Davey, Democratic candidate, proposes a two-year moratorium on payments of principal on municipal bonds in emergency cases, while Clarence J. Brown, Republican candidate, denounces this idea. A sales tax

may be instituted as a desperate measure to save vital governmental functions.

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Chicago Consolidates Its Parks.—A decision by the Illinois Supreme Court late in August upholding an act approved by referendum in April has paved the way for the unification of the checker-board of independent park districts covering the city of Chicago. This move to consolidate the twenty-two park authorities in the city brings to a conclusion a long period of agitation and planning toward this end. The Chicago Bureau of Public Efficiency in 1911, when there were only eleven park units, made an exhaustive survey and recommended consolidation estimating that it would save $500,000 annually.

Under the superseded set-up about 85 per cent of the park area of the city was under the control of the three major park districts —South Park, Lincoln Park, and the West Chicago Park districts. The South Park commissioners were appointed by the judges of the circuit court presumably to keep the parks out of "politics" but actually drawing the courts further into "politics". The commissioners of the other two principal districts were appointed by the governor, the patronage of the districts being used at times to control Chicago legislators or to combat local political organizations hostile to the state machine. In addition to these districts there were nineteen small park districts, covering most of the outlying area of the city, each with a board of five elective commissioners vested with the power of taxation and control of park and recreation activities in their respective areas.

The consolidation act[1] in brief provides for the creation, in succession to the old districts, of the Chicago Park District which includes all territory within the city and a very small area outside embraced in some of the existing small districts. A board of five commissioners of the district, appointed by the mayor, has been in office since May 1, but the old boards have continued to function to avoid confusion in case the act were voided. The commissioners constitute a body corporate with the power of taxation and authority to determine general policies and appoint the chief administrative officers of the district.

Appropriate transitional provisions are included relating to finance and personnel. The original districts remain liable for the payment of their bonded indebtedness.

The act is a long step toward governmental simplification, but it is not everything that might be desired. In effect a separate governmental unit, practically co-terminous with the city, is created with its own taxing power, ordinance power, and overhead agencies. Chicago experience would seem to indicate that this type of organization in the long run may become relatively immune from intelligent popular control and at the same time draw away from the city the influence and interest of many important special groups. The act leaves outside the principal park authority seventy-eight small parks (aggregating about two hundred acres), thirty-nine playgrounds, and other recreational facilities under the control of the city's department of public works, about sixty playgrounds under the jurisdiction of the bureau of recreation of the board of education, and over 30,000 acres of recreational area on the borders of the city managed by the Cook County forest preserve district. The act should, however, reduce overhead costs, make for a more equitable distribution of park facilities over the city, simplify the problem of traffic control on park boulevards, and make possible unified planning for the improvement of a system of parks already magnificent in some respects.

V. O. Key, Jr.
University of California at Los Angeles

[1] *Laws of Illinois*, 1933, p. 725.

COUNTY AND TOWNSHIP GOVERNMENT

Edited by Paul W. Wager

Kentucky—Sales Tax to Pay County Debts.—Hereafter, county road debts will be paid in the state of Kentucky by what is thought to be a novel method. The recently enacted gross receipts tax law provides that county road obligations be met out of the allocation to the county of one cent of the three-cent retail sales tax, which is being collected at present under this law.

The aggregate revenue collected from the

sales tax in the state is now divided into two parts. Two-thirds of it is credited to the general expenditure fund of the state while the remaining one-third is credited to a fund known as the county road fund. This money, the equivalent of one cent of the three-cent sales tax, is to be distributed among the 120 counties of the state. One-third of the fund is distributed equally among the several counties; one-third is distributed on the basis of population, and the remaining one-third is divided among the counties on the basis of area.

The law provides that after the money is received from the state the county treasurers shall credit it to the road fund of the respective counties. The county boards or fiscal courts are then to direct the payment annually from the road fund to the sinking fund of all moneys received under the law, or of a sum sufficient to make payments upon the principle and interest of the bonded indebtedness of the county created by the construction and maintenance of roads and bridges. If there is no road and bridge indebtedness, all the money received by the county under the sales tax law is to be applied to the payment of the floating indebtedness caused by the construction and maintenance of roads and bridges in the county. Finally, if there is no floating indebtedness of this character, the county boards or fiscal courts are free to expend the money for the construction and maintenance of roads and bridges as they see fit.

This feature of the gross receipts law was sponsored by the Republican element in the legislature, and was a condition upon which this faction agreed to support the sales tax. Many of these legislators represented counties with large debts, and this solution appeared to be a way out of many difficulties. It was the hope of those who sponsored this feature of the law that the burden of county indebtedness, which was caused largely by road and bridge construction, will be reduced if not completely eliminated within a few years.

J. W. Manning

University of Kentucky

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Wisconsin—Referendum on City-County Consolidation.—The voters of the city of Milwaukee will express their opinion on November 6 on the question of city-county consolidation. As a result of considerable discussion in the region of Milwaukee, a Joint Committee on Consolidation in Milwaukee County, consisting of citizens of the region, was appointed under resolution of the county board of supervisors and the common council of the city of Milwaukee. The report of this committee requested the submission of the question to advisory referendum. On August 8 the common council of the city ordered city officials to call an advisory referendum upon the following proposition, to be submitted to the city electors:

"Do you favor changes in the law which will make one officer elected in each assembly district in the city of Milwaukee the representative of said district on both the county board of supervisors of Milwaukee county and the common council of the city of Milwaukee?"

The question will arouse particular interest in Wisconsin, because the county consolidation movement is brewing. The overwhelming numbers of office-seekers in the September primaries will furnish added impetus.

Lee S. Greene

University of Wisconsin

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Virginia—Sentiment Impedes Consolidation of Counties.—In its recent report the Virginia commission on county government based its appeal for county consolidation on the citizens' well known desire for tax reduction. For illustrative purposes the total area, population, and taxable wealth of four small Tidewater counties are compared to an average sized county. The conclusion offers "convincing evidence" that the taxpayers of the small counties will save by complete consolidation of area and functions.

This appeal to the taxpayer's pocketbook may overcome the equally emotional appeal for keeping historic areas intact. While ridiculously small and poor, these Tidewater counties are treasure houses of historical interest. In the beginning many of the Virginia counties were parts of the original six shires which were divided and later subdivided for the convenience of the people in attending public places. The writer selected for a recent article the inveigling title "Back to the Original Shire", thinking that these good

people might be persuaded to go back to something provided it is a fairly faithful reproduction of the original. I think, also, we might be absolved of sacrilegious motives if we could convince the people (excepting the county office-holders) that a consolidation would not impair their county names, but the names of Warwick, York, James City, and Charles City would still remain to designate representative districts which have no governmental functions.

Another obstacle that the county commission is trying tactfully to meet is doing violence to the sentiment of local self-government. Even the Byrd road act bowed to this principle when it allowed the counties to vote to stay out of the state road system. That is the reason, as a member of the commission tells me, why the commission finds and makes known the facts and then stands by hopefully waiting to see the initiative for consolidation come from the people.

JAMES E. PATE

College of William and Mary

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Tennessee—Laxity in Financial Management.—A recent financial survey of Grundy County by the Tennessee Taxpayers' Association staff discloses a unit of nearly 10,000 people, nestled in the Cumberland Mountains about fifty miles from Chattanooga, whose government had almost ceased to function through causes that are more or less typical of those in many counties of the state. Supporting two courthouses in separate hamlets, its loose and easy-going methods of handling county funds had produced a critical condition. The lack of executive responsibility in holding officials strictly accountable for revenue collections and disbursements is illustrated in shortages to the amount of $26,000 over a five-year period in the office of the trustee (treasurer), and the collection of only 1 per cent of the property and poll taxes on January 1, 1934, three months after they had become due.

Despite these facts, the trustee who was found short in his accounts by the state auditors won the position of county judge in the August election, an office which provides an eight-year term and to which is entrusted the financial management of the whole county. Such conditions indicate a need for a drastic renovation of county affairs throughout the state. The Taxpayers' Association has recommended certain changes in management but there is no organized demand for reform legislation in the 1935 general assembly. Centralization received a body blow in the state's financial debacle in 1930, and no party or faction has made even a gesture in the direction of county reorganization.

Constables Can Not Secure Bonds.—An interesting by-product of the reluctance of surety-bonding companies to supply bonds for Tennessee county officials is found in Hamilton County, where only two of the five constables-elect were able to make bonds, and these are scarcely satisfactory either to the county or to the officials themselves. The candidate from the first civil district (Chattanooga) who won his post by a wide margin of votes, resigned his office to the county court, and the remaining officers are expected to follow suit. One reason for the attitude of the bonding companies is the total lack of responsibility of this constitutional officer to any official or county agency. Unlike a deputy-sheriff, who is removable at the will of his superior officer, a constable may be removed only after a long and tedious ouster suit. Remunerated solely by their fees, and working in league with the prehensile justices of the peace, the constables have been among the most pernicious offenders in the matter of "fee-grabbing". Perhaps it would be too hopeful a sign to see the elimination of these officers by such indirect means; but there seems to be no other method under present constitutional inhibitions.

F. W. PRESCOTT

University of Chattanooga

TAXATION AND GOVERNMENT

Edited by Wade S. Smith

Reorganized Collector's Office Speeds Tax Payments.—The Irvington, New Jersey, Council for Municipal Economy, which began over a year ago to seek ways and means of stimulating tax collections in Irvington, reports very material progress as a result of reorganization of the tax collector's office when a new director of revenue and

finance took office last May. Alvin A. Burger, secretary of the council, writes:

"The plan, which has worked out successfully so far, is this: The office system has been completely overhauled and modernized. For twenty years it had been run like a country grocery store. A Rand cardex system has been installed and the department now knows from day to day how much taxes have been collected and how much is outstanding, both personal and real, current and delinquent. We have prevailed upon the new commissioners to establish the office of comptroller, who has charge of all financial activities of the city and to whom the tax collector, the assessor, and all other department heads in the revenue and finance department are responsible. Heretofore, without a comptroller, every department was its own boss, answerable only to the elected head of the department, who might or might not know what it was all about.

"The collector's office is organized as follows: The collector, of course, supervises all activities. With two office assistants, he handles current tax collections. A field force of six men has been added to the staff, three of whom follow up collections of back taxes and three of whom go after personal taxes, both current and arrears. These men do not go out and collect taxes but merely canvass the taxpayers in an effort to sell them on the idea of coming in and paying up in a constructive way. This field force has done a splendid piece of work and collection of delinquent and personal taxes has been stepped up to about 15 per cent better than at any time in the past three years. The men are required to give a daily accounting of calls made, and bring back full data on why the individual did not pay or make some arrangement to pay either in full or on an installment basis.

"Outside of the tax collector's office, the commissioners, together with our organization and other civic groups, have been carrying on a sustained publicity campaign to put the taxpayers in a constructive mood regarding payment of taxes and to show them how real money is saved by them in making payments promptly."

*

Taxing Creative Genius?—From San Diego, California, comes news which has stirred up no little discussion, in the form of a tax on the unsold paintings and works of sculpture awaiting disposition in artists' studios. Without knowing much in detail of the tax—its rate, basis of assessment, administration, etc.—its mere existence serves to indicate strikingly the desperately unhealthy condition of our local tax systems.

Here is a tax not expected to yield more than an insignificant pittance to the municipal coffers, the only justification for which appears to be that it is legally permissible. Its administration, if seriously undertaken, will be complicated and costly. It is the *reductio ad absurdum* of our haphazard concoction of local revenue laws. Our cities are getting pretty far off the track when they have to resort to trifling taxes on the unsold efforts of a few citizens.

We're not particularly concerned about the San Diego artists. The tax probably won't last long, and artistic genius can probably be counted on to find a way out. But we are concerned about a system retaining a personal property tax which in times of stress can be reduced to such extremes. The artists are protesting, and the tax may be repealed, or the artists may leave San Diego for more hospitable precincts. It is the government and the bulk of the citizens who are suffering in the long run from an antiquated system of which this tax on unsold works of art is only symptomatic.

*

PWA Offerings Continue to Exact Premiums.—Indicative of an improving bond market was the sale October 17 of $3,965,000 of securities taken over by the Reconstruction Finance Corporation from the Public Works Administration. Of the eighteen issues of municipal and state bonds represented, fifteen, aggregating $3,211,000 in value, commanded a premium. Some 141 bids were submitted for the eighteen issues, and the highest bid, $1,060.796 per thousand, was offered on a $300,000 issue of Utica, N. Y. Bonds on which the PWA makes loans to municipalities to carry forward recovery projects pay 4 per cent interest.

*

Federal Emergency Expenditures Increase.—Net emergency expenditures for the first three and a half months of the government's current fiscal year, ending October 15,

totaled $1,015,433,399, according to treasury reports. Gross emergency expenditures amounted to $1,151,715,521, but two agencies showed credits—the Reconstruction Finance Corporation of $125,963,651, and the Federal Deposit Insurance Corporation of $10,308,531.

The principal items of emergency outlay included loans and grants to states and municipalities, $52,082,000. On highway projects $152,119,505 was expended. The Federal Emergency Relief Administration, largest single item, expended $444,343,739.

The deficit October 15 was $707,033,182, as compared with $273,902,602 a year earlier, and the public debt was $27,200,106,462, as compared with $23,055,555,810 on October 15, 1933.

*

HOLC Pays Taxes.—To liquidate arrears of taxes and assessments on homes securing loans, the Home Owners Loan Corporation has paid approximately $103,300,000 into local treasuries in 3,077 counties, according to a report of the first full year of the corporation's operation, issued September 19.

This fact bears food for thought on the part of those who have been led to believe that the tax delinquency crisis is past. In many localities the increase in tax payments is just about equal to the payments of tax arrears by the HOLC, indicating that the "improvement" in collections is due more to national intervention than to local initiative. Federal aid plays an important part in the picture, but municipal taxpayers must be persuaded and helped to liquidate their tax indebtedness on the home grounds if a sound solution to the delinquency problem is to be found.

*

Country-wide Tax Delinquency Analyzed.—Reports of the Division of Real Estate Taxation, Bureau of the Census, which undertook the nation-wide tax delinquency survey, have now reached a point where definite comparisons can be made between the extent and occurrence of delinquency and the underlying conditions. "Current Tax Delinquency: Part I," recently released, shows the assessment, levy, and amount and percentage of tax delinquency of 1932-33 taxes for all states, and includes a valuable summary of tax collection laws as amended since 1930.

The country-wide average of uncollected taxes for the 1932-33 levy is 20.5 per cent, with state averages ranging from 6 per cent for Massachusetts to 40.5 per cent for Michigan. The total delinquency amounted to $909,465,000. In discussing the relation between the various delinquency ratios and the provisions under which the tax is collected, the report makes this significant comment:

"The penalties that are imposed upon the final due date . . . vary from moderate to very large amounts and interest rates. . . . Penalties are ineffective to stimulate tax collections unless they are enforced as provided by law. It even appears that the amounts of delinquency have been increased in some states by expectation of favorable legislation for modification of penalties, quite as effectively as by the legislation itself.

"The use of the tax sale as a means for enforcing collection appears to have a direct relation to the amount of tax delinquency. Thus, in states with low rates of delinquency it not infrequently appears that taxpayers expect to lose their property either before or soon after the close of the tax year in the event of tax delinquency. In other states the threat of tax sale is less seriously made and therefore is less effective, the amounts delinquent being increased in proportion."

PROPORTIONAL REPRESENTATION

Edited by George H. Hallett, Jr.

The Proportional Representation League's Annual Meeting.—*The annual dinner of the Proportional Representation League will be held the evening of November 27 at the William Penn Hotel, Pittsburgh, Pa. Our program is set forth with that of the fortieth annual convention of the National Municipal League on pages 562-3 of this issue.*

*

Provincial Elections in Canada.—The elections of the provincial legislatures of Canada have often been characterized by a great turn-over in votes, which, under the prevailing majority system of election, has annihilated parties and governments. Of such swings of the political pendulum, few examples have been more striking than those

which took place, in June 1934, in Ontario and Saskatchewan.

Ontario is a province which, with the exception of the election of 1919, has been Conservative in character for the last thirty years. The election in June 1934 resulted, in round figures, as follows:

Party	Votes	Seats
Liberal	569,000	65
Conservative	484,000	17
Co-operative Commonwealth Federation	94,000	1

Eight ministers out of twelve were defeated. The late Premier survived through election on a minority vote. The Ottawa *Evening Citizen* (June 22) made this comment: "Roughly the Liberals obtained one seat for every 8,700 votes, and the Conservatives one seat for every 28,500—yes, P.R. is obviously needed."

In Saskatchewan, where the Conservative Government held office with the support of some Independents, the swing of the pendulum carried even further. Every Conservative and every Independent supporting the Government has been swept away. Not a minister survived.

The result of the election, in round figures, was:

Party	Votes	Seats
Liberal	173,000	49
Conservative	103,000	0
Co-operative Commonwealth Federation	83,000	5
Others	4,000	0

The Saskatchewan *Leader Post,* a Liberal journal, gave the following comparison between the percentages of votes polled and the members returned:

Party	Percentage of votes polled	Percentage of members returned
Liberal	46.9	90.7
Outgoing Government	26.0	0.0
Co-operative Commonwealth Federation	24.0	9.3
Others	3.1	0.0

Not only was the Conservative Premier, Mr. Anderson, defeated, but also Mr. Coldwell, the leader of the Co-operative Commonwealth Federation, although his party secured five seats. The Regina *Star* (June 22), said: "At the time of writing, the total vote for the opposition candidates has reached 191,383, as against the new Government's 173,066. . . That makes representative government a farce. . . Refused representation in the legislature, the Conservatives will have to adopt criticism and opposition from outside. Unless this is done, over 104,000 of the people of Saskatchewan will be deprived of a voice in the conduct of the affairs of the province. Yet they are just as much taxpayers as are the Liberal electors with their 49 voices in the legislature." In its issue of June 21, the Regina *Star* declared that "if proportional representation had been used, the Conservatives would have had fourteen seats."

These results may well strengthen the position of electoral reform in Canada. They are thought to give a clear indication of victory for the Liberal Party in the Dominion elections next year, and it may be recalled that the leader of the Liberal Party, Mr. Mackenzie King, has placed on his programme the application of P.R. in the large cities of Canada.

JOHN H. HUMPHREYS, *Secretary,*
British Proportional
Representation Society

Private P.R. Elections. — Among the private organizations which have recently adopted P.R. for their own use is the Municipal League of Seattle. The League took an active part earlier in the year in the campaign to secure P.R. and the city manager plan for Seattle. Though the charter amendment presented for this purpose was thrown out by the courts on technical grounds, as explained in our April issue, the issue is regarded as merely postponed. Meanwhile the Municipal League "felt that every effort should be made to familiarize League members with the plan" and not only adopted P.R. for its own elections but suggested that other Seattle organizations do so. The first P.R. election was held on May 22. Under the by-laws there was a separate ballot for president—Henry Elliott, Jr., being elected without opposition—and nine trustees were elected together, the two highest in the P.R. count being selected as vice-presidents. The nominating committee brought forward twelve candidates, of whom seven were

elected, two places going to members nominated by petition. Joseph P. Harris of the University of Washington, member of the National Municipal League council and an authority on election methods, was elected first vice-president. Dr. Harris was prevailed upon to use the ballots to illustrate a Municipal League luncheon talk on the "Basic Principles of Proportional Representation".

Concordia College, Moorhead, Minnesota, was last year added to the lengthening list of colleges using P.R. for student body elections. The new constitution, drawn up by Carl W. Tiller, editor-in-chief of the *Concordia,* calls for P.R. or preferential voting for all student elections in which there are more than two candidates.

The Alumnae Association of Smith College has used P.R. and preferential voting for its elections since 1923. This spring the Alumnae Council used P.R. for selecting three nominees for alumnae trustee of the college and the entire association to elect four directors of the association. Miss Florence Snow, general secretary, wrote: "We are most enthusiastic about this method of election, which seems to be the fairest which can be devised. Each year we take pains to inform the tellers and they are always greatly interested."

Private organizations in Great Britain which used P.R., or the corresponding Hare system of preferential voting for single officials, during the year covered by the last annual report of the British P.R. Society (May 1933—April 1934) included the Civil Service Confederation, the Royal Arsenal Cooperative Society and other coöperative societies, the Coöperative Wholesale Society, the Baptist Union, the Congregational Union, the London Liberal Federation, the Yorkshire Liberal Federation, the Students' Union of the London School of Economics, the National Council of Women, the National League of Young Liberals, the Northern Colliery Officials Mutual Aid Association, the National Union of Clerks, the National Union of Railwaymen, the National Union of Teachers, the Independent Order of Rechabites, and the Engineers Section of H.M. Office of Works.

*

Winston Churchill Favors P.R.—There is one other reform in the franchise which should be made by the present Parliament and should become operative at the next election. I mean the institution of proportional representation for the great cities.

The lack of influence on affairs of our great cities like Liverpool, Manchester, Glasgow, Birmingham, Bradford, Leeds, and many others is deplorable. As political entities they are already moribund. They had more influence in the old days when they only had a couple of members than they have now that they are each sliced up into ten or a dozen constituencies. There is no collective voice from any of them.

Leading politicians in every party avoid such fickle and changeable areas, and seek in county seats or smaller boroughs a trustworthy resting-place.[1] When one sees how, for instance, the interests of Manchester and Liverpool are ignored in the whole march of public events, and how little they count in public discussions, it is surely time a change was made.[2] . . .

And what is the alternative? I have no hesitation in saying that unless the reform and strengthening of our parliamentary institution is actively undertaken without delay we shall see ourselves involved in a succession of disastrous fluctuations attended by continued constitutional decay, and that the regeneration of the country and the establishment of sincere and vigorous government will be achieved through agencies very different from those which have hitherto been the peculiar glory and achievement of our island.

RT. HON. WINSTON CHURCHILL
in the *Evening Standard*, London.
January 24, 1934

GOVERNMENTAL RESEARCH ASSOCIATION NOTES

Edited by Robert M. Paige

Schenectady Bureau of Municipal Research.—The chief aim of the Bureau in recent months has been the development of an informed public opinion. The Bureau has, of course, continued to supply material, informa-

[1]The reference of course, is to the British practice of choosing a constituency to contest without regard to the candidate's place of residence.—Ed.

[2]Mr. Churchill went on to oppose P.R. in the country districts.—Ed.

tion, and advice to city officials whenever its assistance has been requested, and much unpublicized work has been done for city and county officials. However, the publicity and educational work of the Bureau has been given the most attention. During the past two or three years, space given to Bureau material by the local newspaper has averaged 12 to 15 column inches a day. By consulting officials before publishing articles about their work and giving credit where credit appears to be due the Bureau has won a reputation for nonpartisanship and fair dealing and has established and maintained cordial relations with local officers.

Evidence that the Bureau's educational campaign is bearing fruit may be seen in the fact that the local taxpayers' association and many other local civic organizations, including the League of Women Voters, Good Government League, and Federation of Women's Clubs, use the Bureau's fact-finding facilities, and are taking an increasingly aggressive interest in city and county government. A strong movement for city manager government is a definite reflection of this awakened civic consciousness. The substantial reductions which have been made in the budgets of the city and county since the peak years are other indications of the effectiveness of the Bureau. Surveys and investigations pointed out to city officials and to citizens generally the most feasible and most constructive economies, and continuous publicity kept these proposals before the public. The work of the Bureau is evidently appreciated as almost a hundred new supporters have come forward during the past three months.

Recent research reports have covered the following subjects: damage claims against the city, comparative police costs, proposed county charter changes, city's cash position and bond refunding proposals, state-collected and locally-shared taxes, comparative salary rates, state legislation to assist local economies (1934), street cleaning costs, proposed purchase of airport by county, milk regulation, up-to-date map of city showing street numbers (with CWA drafting assistance), administration of criminal justice.

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New Officers of Boston Research Bureau.—The Boston Municipal Research Bureau has been fortunate in obtaining as its new chairman, President A. Lawrence Lowell of Harvard University. The new vice-chairman is Henry B. Sawyer, former member of the Fall River Board of Finance and now connected with a large investment corporation.

*

Stark County Tax League (Canton, Ohio).—The annual report of the secretary of the League, issued during July, contains a detailed account of a year of activity. The League took an active part in the educational campaign preceding the referendum on the so-called county home rule amendment and circulated many thousands of pamphlets and circulars on this subject to the voters of Stark County. The amendment carried in Stark County by a wide majority.

The League has been active in research work on county affairs and has made its findings and recommendations available to the Governor's Commission on County Government. This commission was appointed for the purpose of recommending optional plans for county reorganization for various types of counties in the state. Mr. Paul Belden of Canton was selected as one of its twelve members.

The passage of the ten-mill tax limitation amendment in November has precipitated a climax in local government finance and taxation. There has been a somewhat mistaken idea that the five-mill reduction under the new limitation could be absorbed by suddenly reducing proportionately the cost of government. This might be possible if it were not for the fact that in most counties more than one-third of the fifteen mills is necessary annually for the retirement of debts and payment of interest. It is manifest that it is unreasonable to expect in one year a 50 per cent reduction in government cost. A reduction in general property valuations throughout the state of approximately 35 per cent makes the situation even more difficult. The League, after a thorough analysis of the situation, has found that some new form of tax will be necessary, at least temporarily, until debts have been paid and until the cost of government is further constructively reduced. The question as to what form these new taxes should take has been a problem which has balked all effort of the recent special

session of the legislature called for that particular purpose.

One of the chief reasons for the extreme difficulty of reducing the operating cost of the county and municipal governments in Stark County had been the constant increase, particularly since 1931, in the cost of emergency relief. In 1933 this item reached a point which represented over 50 per cent of the total operating cost of the county government. It is hoped that the crisis in direct poor relief has now passed as the county poor relief records show that at the present time there still remain on the list about 4,000 families as compared with 7,500 a year ago, and a peak of 10,600 families in 1933.

Several bulletins have been issued by the League dealing with the proposed Muskingum Valley Conservancy District Project. As originally outlined, it appeared that Stark County would receive no benefits whatsoever from either a flood control or water conservancy standpoint. However, it appears now that the League's effort to obtain changes in these plans may be successful as the officials in charge indicate that at least one dam may be located north of Massillon and Canton.

During the past year the secretary of the League has devoted a great deal of time to Stark County affairs. Assistance was given the board of county commissioners at the time the budgets were prepared in the fall of 1933, and also the county budget commission when the rates were set and the money allocated to the various subdivisions of the county.

The Tax League started the movement for the consolidation of the county workhouse and the county jail, and after over a year's efforts was finally successful in having this negotiated. A conservative estimate of savings, if the merged institution is properly run, is $25,000 a year.

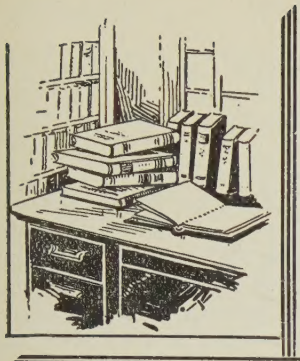
During the past year the financial difficulties of the city of Alliance has probably been the worst of any of the three cities in the county. A number of conditions have contributed to this result, including a large tax delinquency. It was necessary during the past year for the city to issue $34,000 of tax anticipation certificates (scrip). Although this form of money is not the most desirable, it served its purpose in the case of Alliance by permitting the continuance of the fundamental forms of municipal government such as police and fire protection which otherwise could probably not have been done. The security pledged for the redemption of these certificates is delinquent taxes over a period of five years, a portion of which is required to be set aside each year. The League, through its secretary, assisted the city auditor in Alliance in attempting to cope with these fiscal problems.

Governmental Research Association.—The 1934 meeting of the Association at Lake Cazenovia, near Syracuse, New York, was unique in many respects. In the first place, the location—a quiet, small resort—was conducive to frank and intimate discussion. In the second place, the coöperation of the American Political Science Association resulted in the attendance of a number of university professors who contributed enormously to the stimulating discussions.

About seventy-five persons attended the conference although most of the individual sessions were not so large and it was possible to use an informal round-table procedure that was far more interesting and valuable than the customary conference program. No report of the conference is to be published if for no other reason than that no report could be prepared which would do justice to the gathering. The conference did not come to any conclusions. But the almost unanimous opinion of those in attendance was that they had derived a great deal of information both from the regular sessions and from private conversations with fellow researchers and had enjoyed the week more than any similar conference period they had ever attended.

Subjects of the principal conference sessions were as follows: The present situation in the field of municipal finance, control of land use, reorganization of the governmental revenue system, financing unemployment relief, and reorganizing county government.

Although the success of the conference was not due to any one man's contribution, the able leadership of Philip Cornick of the Institute of Public Administration, who served as chairman during the first four days, stands out in the minds of all those in attendance as the major reason for its success.



RECENT BOOKS REVIEWED

EDITED BY EDNA TRULL

British Public Utilities and National Development. By Marshall E. Dimock, Ph.D. London, George Allen and Unwin, Ltd., 1933. 349 pp. Distributed in the United States by University of Chicago Press. $3.25.

This book is the product of a liberal-minded American college professor thoroughly trained especially in the field of public administration. The materials which it presents were assembled, analyzed, and put into a form which can be appreciated by the layman as well as by the trained expert, during the author's nine months' sojourn in England in 1932-1933. It is a source of pride to American scholars that one of their number has been the first to contribute a comprehensive work in the increasingly important field of public utilities administration.

The reviewer agrees with the English publishers and the reviewer in the British *Public Administration* (January, 1934) that this is "the first comprehensive analysis of the development, organization, management, and control of British public service undertakings." The author, in his attempt to interpret the development of public utilities in relation to "national development" has undertaken the difficult task of applying the principles of "economics, public administration, law, and philosophy." It is no indictment of the book to express an opinion that the author's attempt to present a "philosophy" of public utilities administration and control was the most difficult and least successful among the several lines of approach.

A large part of the book is devoted to the several types of public control applied to the different types of public utilities. Public utilities are divided into five classes, namely:

(1) the public authority (public ownership and operation);

(2) the private company operating under a limited monopoly;

(3) the public utility trust;

(4) mixed undertakings composed of private and public capital, and

(5) the private individual.

The fourth and fifth are dismissed with a word, while the first three are developed at length. Chapter I, "The Setting," and Chapter IX, "The Future of Public Service Undertakings," set forth the general principles, including the nature of public utilities, the several classes of control, and their nature and importance.

Probably for Americans the most informative portion of the book is that dealing with the "Public Utility Trust." According to the author "the public utility trust is a special form of legal creation; its directors are appointed by the government, by local authorities, or in certain cases by the users of the service; the undertaking is a legal monopoly; the stockholders are all creditors and not partners in the undertaking; and the amount and disposition of its earnings are strictly limited by statutory provision. The public utility trust is non-profit-making. The principal respect in which it differs from a government department . . . is in the absence of continuous ministerial control over its operations." (p. 45)

The four outstanding public utility trusts, namely, the Port of London Authority, the British Broadcasting Corporation, the Central Electricity Board, and the London Passenger Transport Board, are described and their workings and functions analyzed.

The author suggests that "for the time being the public utility trust appears to hold out the most promise of preference in the future." However, he fears that such trusts may be too far removed from effective governmental control; that pressure from interest groups may creep in; and that unnecessarily high salaries, fees, and overhead costs may be eliminated with difficulty." (p. 303)

The author appears to have more confidence in the ultimate success of government-owned utilities under control of Parliament and of Ministers than of those under Public Boards with an independent status. (See pp. 316-318.) (Those interested in the "public trust" should read also Herbert Morrison's "Socialization and Transport.")

The factual side of the study is effectively covered by the chapters on railway transport, post office, including telegraph and telephone service, electricity, and broadcasting.

A bibliography (which is lacking) would have been appreciated by students of public utilities.

On account of the controversial nature of the subject, readers may question many of the author's conclusions, but every reader will be enlightened by the clear presentation and keen analysis of facts.

ORREN C. HORMELL
Bowdoin College

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Uniform State Action. By W. Brooke Graves. Chapel Hill, University of North Carolina Press, 1934. 368 pp. $3.50.

Professor Graves here offers a timely addition to the literature on interstate and federal-state relations in the United States. Without dogmatism he argues cautiously and convincingly for an extension of uniformity as "a possible substitute for centralization." Although Professor Graves is not concerned particularly with the precise methods of obtaining uniformity he favors action by states within the scope of their authority where states show "that they can and will do what needs to be done" (290); where states fail to do this he favors federal action whether or not it results in centralization (*ibid*). To hasten uniform state action the author lays down a five-fold program of specific proposals as follows: first, stimulation "of interest in the idea of uniformity *among those who have the power to act*—namely, public officials, both legislative and administrative" (298); second, organization of a national council of state administrative officers to study the existing situation and to devise ways and means of furthering uniformity (299); third, facilitation of coöperation among agencies working for legislative and administrative uniformity by locating their central organization headquarters in close proximity (300); fourth, edification of the members of the judiciary, in every court of record in every state, on the nature and purpose of the uniformity program so developed (300); and fifth, inauguration of an extensive educational campaign in the interest of uniform state action similar to that undertaken by supporters of city manager government (301-302).

Professor Graves' account rightly presents in greatest detail the role of administrative agents and agencies in their quest for "Uniform State Action" (77-281). The need for and methods of securing uniformity are reviewed briefly (3-32); legislative uniformity (33-77) and uniformity through judicial decision as well as judicial coöperation (269-280) are described with similar brevity, no doubt because the author believes they are less significant than uniformity through administrative devices (297).

Appendices containing constitutions and by-laws of representative organizations of state administrative officers, lists of national and sectional organizations of these officers, and modifications of uniform acts serve to enhance the value of this lucid and thorough study.

Professor Graves has succeeded in synthesizing a mass of important material. His study is vitalized by the judicious use of letters and records obtained from hundreds of officials and others having a practical administrative approach to the problem. This reviewer regards the volume as an indispensable guide to the ultimate solution of interstate diversity.

KENNETH O. WARNER
University of Arkansas

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Municipal Electric Utilities in Michigan. By Donald M. Whitesell. Ann Arbor, Michigan Municipal League, 1934. 104 pp. $2.25.

This is a simple and direct presentation of fundamental facts about the fifty-two municipally-owned electrical facilities in the state

of Michigan. The author has described, and presented in tabular form where possible, the history, organization, administration and control, financing, revenues and expenditures, accounting and record-keeping policies, rate schedules and plant statistics such as capacity, etc., for the lighting plants of the state. Facts are presented from a strictly impartial point of view and there is relatively little analysis or interpretation. The work is a valuable addition to the state studies previously published covering California, Massachusetts, and New York.

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Municipally Owned Electric Utilities in the United States. Compiled by Otto M. Rau. Washington, D. C., Federal Emergency Administration of Public Works, 1934. 104 pp. mimeo.

This volume, prepared for the Mississippi Valley Committee, is a tabulation of the 2,390 places having municipal service, indicating the type of plant, capacity, meters and other points. Although this is, to be sure, somewhat meager information, the dearth of authoritative data on municipal plants makes it a welcome document.

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Jahrbuch fur Kommunalwissenschaft. Edited by Kurt Jeserich. Vol. 1, No. 1. Berlin, Kohlhammer, 1934. 314 pp. RM 6.

The National Socialist revolution has made obsolete most of the previous studies on German municipal government. In order to provide information on current developments, the Municipal Science Institute of the University of Berlin has begun the publication of the *Jahrbuch fur Kommunalwissenschaft.* The year book is edited by Dr. Kurt Jeserich, head of the Institute and executive president of the German Union of Local Authorities (*Deutscher Gemeindetag*). Two numbers will appear annually.

In the first number, Dr. Jeserich has contributed an interesting and scholarly article on the nature and scope of municipal science. The numerous changes and proposed changes in German municipal government are admirably presented in a detailed analysis by Dr. Harry Goetz of the Institute staff. Other articles deal with the *Deutscher Gemeindetag,* municipal finance, public savings banks, municipal statistics, etc. While the main emphasis is on things German, there is an article on municipal administration and finance in Italy, and another on the unemployment problem in Birmingham, England. American officials and students who wish to keep in touch with German municipal government will find the *Jahrbuch* indispensable.

ROGER H. WELLS

Bryn Mawr College

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Civic Education in the United States. Report of the Commission on the Social Studies. Part VI. By Charles E. Merriam. New York, Charles Scribner's Sons, 1934. 196 pp. $1.75.

Professor Merriam's recent work opens with an easily recognizable picture of the present social-political order thrown out of balance, full of insecurity for its members. He shows the urgency of rapid and intensive experimentation if democratic principles are to be preserved. Government has remained sacred and stationary while science has been transforming other fields. A balance must be reestablished between the practical organization of our life and scientific knowledge; technology, medicine, psychology, and education must be integrated into a new plan. Old democratic forms must change, or be swept away by forces which the author recognizes as more revolutionary than the most revolutionary of political doctrines.

The slim volume is full of insight into social forces, including the increasingly important factor of education; full of a realization that separate educational fields, such as history, sociology, anthropology, and government, which have looked back, must look at the present and the future if they are to serve in the integrating process. *Laissez-faire,* cynicism, aloofness must be superseded by appreciation of realities and of future possibilities.

For the reorganization of civic education in the United States no detailed program is offered but rather an analysis of its needs, its possibilities, and of the scope and attitude which would characterize it. A development of much of the material by the same author in "Recent Social Trends," and richly annotated, this volume should be an inspiration to those who are attempting to prepare themselves and others for the social and civic life of the future.

ELISABETH MCK. SCOTT

Public Documents — State, Municipal, Federal, Foreign. Edited by A. F. Kuhlman. Chicago, American Library Association, 1934. 233 pp. $1.75.

This compact little volume contains the papers presented at the 1933 conference of the American Library Association, edited by the chairman of the Committee on Public Documents. The material deals with the policies and problems concerning the issuance, distribution, and use of public documents. As the editor points out in the foreword, public documents have become very numerous and, more important, very valuable in content. They form a basis for the widespread study of governmental affairs and their accessibility, through carefully planned programs of collection and preservation, is essential for enlightened progress. Those who have occasion to use as well as those who catalogue and preserve governmental publications will find this collection of papers interesting and encouraging.

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The Relation of the State Sales Taxes to Cities. By Paul V. Betters. Chicago, American Municipal Association, 1934. 3 pp. mimeo. Fifteen cents.

This brief—very brief—bulletin shows the limited way in which cities are sharing in state sales taxes and the serious extent to which they pay such taxes either on municipal utility sales or on municipal purchases.

LEAGUE'S BUSINESS

(Continued from Page 563)

The Nominating Committee was composed of the following members: William E. Mosher, Chairman, William P. Lovett, Henry L. Shattuck, Hon. John G. Winant, and Mrs. F. Louis Slade.

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Citizens' Councils in New York.—A conference on government to promote the development of citizens' councils in central New York was held October 19 and 20 at Union College under the auspices of the Schenectady Bureau of Municipal Research and the National Municipal League.

The program included reports from citizens' councils and a discussion of the value of the council plan in improving methods of municipal accounting and finance, in reorganizing local government, and in supporting legislation in these and other fields of government improvement. The last session of the conference covered methods of studying local government.

The conference recommended to citizens' councils in the state immediate study and appropriate action on:

1. Legislative and constitutional provisions for reorganization of county and local government.

2. Collection and dissemination of local government revenue and cost data.

It requested the state committee of the League to prepare a plan for a state-wide legislative service which would provide citizens with prompt legislative information and an analysis of legislative measures.

An organization committee for the New York central region was formed to organize councils and to arrange for coöperation between councils in that region. It includes: Abbett Pulliam, director of the Schenectady Bureau of Municipal Research; Kathryn Starbuck, Saratoga Springs, state president of the Business & Professional Women's Clubs; Alonzo Grace, University of Rochester; Harold Sanford, editor of the Rochester Democrat-Chronicle; Robert L. Steadman, Syracuse University; M. P. Catherwood, Cornell University; Dorothy Schaffter, Vassar College; and others whom the committee may add.

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You and Your Government.—Listed below are coming programs in the ninth series of YOU AND YOUR GOVERNMENT broadcasts. These may be heard each Tuesday evening from 7:30 to 7:45 eastern standard time. Copies of all broadcasts are available after they are given, at fifteen cents. The entire series of eighteen is priced at $2. Order from the League's office.

November 13—"Regionalism and Local Government." Professor Phillips Bradley, Amherst College.

November 20—"The 44 Legislatures of 1935." Henry W. Toll, Director, American Legislators' Association; Hubert R. Gallagher, Research Assistant, American Legislators' Association.

November 27—"Forty Years of Progress." Hon. Murray Seasongood, President, National Municipal League, speaking from the League's Fortieth Annual Meeting in Pittsburgh.

December 4—"Community Foundations." Colonel Leonard P. Ayres, Vice-President, Cleveland Trust Company; Ralph Hayes, Director, New York Community Trust.

December 11—"Enforcing Tax Collections." Philip A. Benson, President, Dime Savings Bank of Brooklyn; Russell McInnes, Government Bond Department, Lehman Brothers, New York.

HOWARD P. JONES, *Secretary*